Devon County Council

# Un-audited Statement of Accounts 2010/2011

30th June 2011

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Devon County Council Statement of Accounts

# Explanatory Foreword

## Introduction

Welcome to the 2010/11 financial statements for Devon County Council. This year extensive changes have been made to the presentation of the Statement of Accounts. The financial statements have been prepared in accordance with the requirements of the Code of Practice on Local Authority Accounting (the Code) which is based on International Financial Reporting Standards (IFRS). This guidance replaces the Statement of Recommended Practice on Local Authority Accounting used in previous years which followed generally accepted accounting practice in the United Kingdom (UK GAAP).

The Devon Pension Fund accounts, although included in this publication, are separate from the accounts of the Council and are subject to a separate audit opinion.

## Accounting policies and comparative information

The accounting polices on which the figures in the financial statements are based follow the financial statements (Note 1 page 27). The adoption of IFRS has had a significant effect on many of these. The most important changes are described below:

- Grants and contributions relating to revenue expenditure will be accounted for on an accruals basis and recognised immediately except to the extent that the grant or contribution has a condition that has not been satisfied,
- Grants and contributions for capital purposes will be recognised as income immediately except to the extent that the grant has a condition that has not been satisfied, rather than being deferred and released to revenue to match depreciation,
- The main financial statements have changed, and there are additional requirements for segmental reporting (see Note 26 Amounts Reported for Resource Allocation Decisions),
- There is a greater emphasis on component accounting and on derecognising parts of an asset that are replaced (See Note 16 Property Plant and Equipment),
- Property leases are classified and accounted for as separate leases of land and buildings,
- Impairment losses will be taken initially to the revaluation reserve to the extent that there is a balance on that reserve relating to that specific asset, and,
- All employee benefits are accounted for as they are earned by the employee. This requires accruals for items such as holiday pay.

Material changes as a result of meeting the revised requirements are set out in Note 2 (page 39) together with further clarifying information.

The changes to the presentation of financial statements and the accounting policies which underpin them have necessitated considerable restatement of prior year comparative figures. As a result the financial statements have comparative figures for 1 April 2009 and 31 March 2010 as well as the year of account, to aid understanding.

## Summary of Financial statements

The financial statements and their purpose are summarised as follows:

- **Movement in Reserves Statement** (page 23) – this statement shows the movement in year for the reserves held by the Council analysed into useable reserves (i.e. those that can be applied to either fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the Provision of Services line shows the true

economic cost of providing services, more detail of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to and from earmarked reserves undertaken by the Council.

The balance carried forward at 31st March 2011 has increased by £308m. The most significant change has been to Unusable Reserves and in particular the Pensions Reserve that has reduced in line with the Pension Liability. Note 25 on page 75 provides more information on the purpose of each of the Unusable Reserves and analyses the movement in the balances. Page 10 of this foreword and note 45 on page 101 provides more information on the changes to the Pension Liability;

- **Comprehensive Income and Expenditure Statement** (page 24) – this statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations: this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

  Total Comprehensive Expenditure and Income was minus £308m in 2010/11 compared with £345m in 2009/10. The reduction of £651m is mainly due to the changes in Pension Liability. As mentioned above, Page 10 of this foreword and note 45 on page 101 provides more information on the changes to the Pension Liability;

- **Balance Sheet** (page 25) – the Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by reserves held by the Council. Reserves are reported in two categories. The first category of reserves are useable reserves, those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitation on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). The second category of reserves that hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line ' Adjustments between accounting basis and funding basis under regulations'; and

- **Cash Flow Statement** (page 26) – the Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash flows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

## Economic context

The current economic recovery looks set to continue although it still seems fragile and most commentators agree that growth is likely to be relatively slow in the medium term. Reduction in public sector spending and investment is seen as essential to reduce the budget deficit. This retrenchment is designed to set national debt on a sustainable downward path and will restore public spending as a share of the economy to a level closer to the historical average and address the structural imbalance in the public finances. Public spending as a percentage of gross domestic product will return to the level seen in 2006/07, and in real terms, to around the level seen in 2008/09.

In the Comprehensive Spending Review the Government set out its spending plans for the next four years. Government departmental budgets, other than health and overseas aid, will decrease by an average of 19% in cash terms over four years. In real terms central government support for local authority spending is due to contract by 28% over the CSR period. The Government intention is to eliminate the current budget deficit over the life of this Parliament.

Inflation in April 2011 reached 4.5% (CPI). This represents an increase of 3.4% from the 1.1% recorded in September. The Bank of England's latest quarterly inflation report indicates that inflation is likely to increase further in the near term. Projections indicate that inflation will stubbornly remain above 2% throughout 2011. In the Bank of England's view when the short term increases that are forecast begin to wane inflation will fall back reflecting the continuing downward pressure on wages and prices from the persistent margin of spare capacity in the economy.

The basket of costs generating inflationary pressure for local authorities is not the same as those that generate headline inflation statistics. Public sector pay restraint will lead to costs pressures below those experienced in the private sector whilst increasing energy and some raw material costs may have a disproportionate upward pressure for some activities.

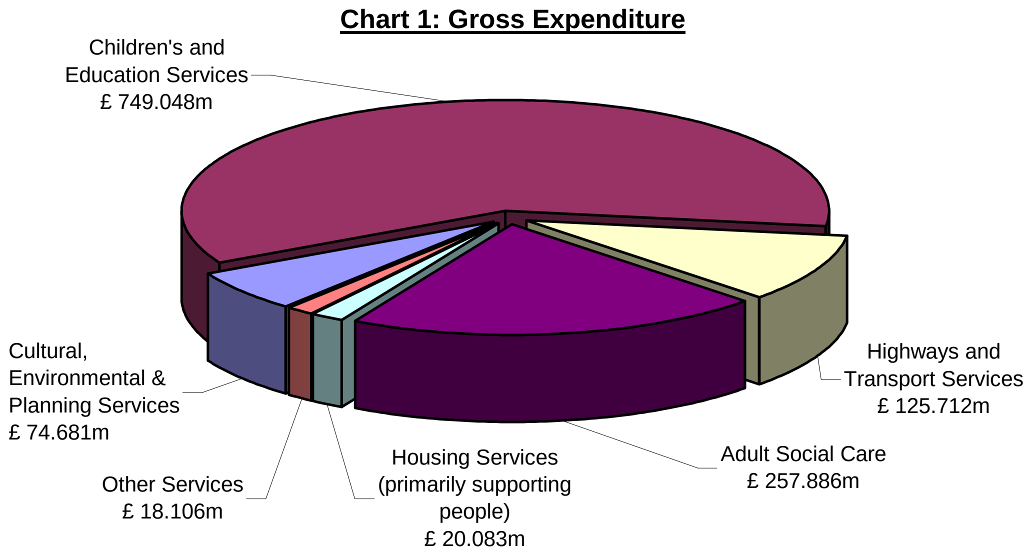
The Bank of England responded to the recession by reducing interest rates sharply. The base rate continues to stand at 0.5% which is significantly lower than rates available before the financial crisis. Some commentators suggest that rates may begin to rise by the end of 2011 although it is agreed that the timing of this is far from certain. Although the strategy of the Council has been amended to manage investment and borrowing risk as a result of the recession, it is unlikely that the level of investment income available to support the budget will recover in the medium term.

The Statement of Accounts is a snap shot of the Council’s financial position as at 31 March 2011. It must be seen, however, in the context of a longer run financial management strategy that meets the challenges described in this section. Relatively high inflation levels, low interest rates and a squeeze on funding create significant pressures on spending that are difficult to manage.

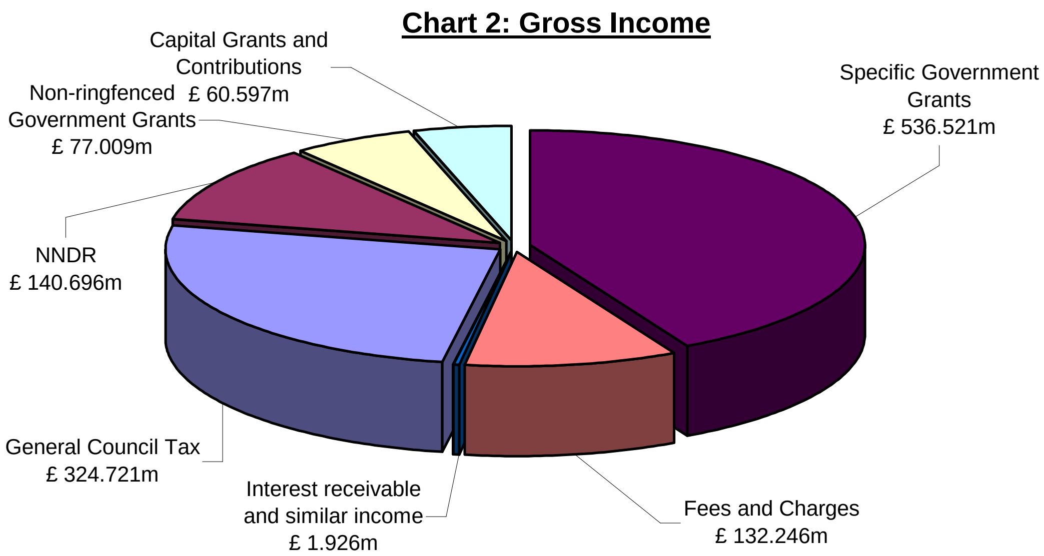
The improvement in the level of reserves over the past year, which is reflected in the financial statements that follow, provides some flexibility to meet these pressures, the largest of which will be redundancy costs relating to service prioritisation reductions and lower grant levels. In excess of £2 millions have been provided for redundancies which are sufficiently well advanced to be quantifiable at 31 March 2011. Further cover for current and future years is provided in the Budget for 2011/12 which was approved in February 2011.

## Financial performance

The Comprehensive Income and Expenditure Statement is produced in line with the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Best Value Accounting Code of Practice (BVACOP) and the Code. This requires a standard analysis of service expenditure, to be shown at total cost, which includes charges for capital asset utilisation, apportionments of central costs, expenditure from funds and reserves and appropriate provision for pension costs. Gross expenditure totalled £1,244.153 million and Chart 1 highlights spending for each service.




Expenditure is funded from a number of sources, some within Devon and some from Central Government. Chart 2, below, highlights sources of revenue income for the County Council during the year. Total gross income of £1,272 million was received during the year. Chart 2 shows how this is derived.




Whilst the published Comprehensive Income and Expenditure Statement is based on the BVACOP analysis, the Council manages the revenue budget according to Directorate management responsibilities, as shown below.

## Revenue Spending

Revenue expenditure provides the day to day services of the Council. Income arises from charges for such services where appropriate and contributions towards their costs.

Monitoring of income and expenditure takes place throughout the year. The financial performance of Directorates, relative to budgets approved by Members is detailed below. The budget is set and monitored on a management accounting basis and does not include the statutory accounting entries that are included elsewhere within these accounts.

**Children and Young People's Services**

In total the CYPS Directorate has under spent by just under £24.4 millions. Expenditure funded from the Dedicated Schools Grant (DSG), including schools, under spent by just over £15.9 millions. Legislation requires that any DSG under or overspending must be carried forward to the following financial year. Hence the sum of £15.9 millions, £14.8 millions relating directly to schools, is being carried forward into 2011/12. In terms of the non-schools budget there was an under spending of just under £8.5 millions. However, this includes the impact of changes to the accounting arrangements for grants. Once this is excluded then CYPS shows a "true" overspending of just £25,000.

Spending pressures were reported throughout the year on services for Children and Families. The impact of court directed placements for babies, fostering, residential care and adoption have represented the major spending pressures during the year. In addition, care management for children in need and the declining occupancy rates of the Atkinson Unit have resulted in large upward pressures on costs. These have not been contained but they have been counter-balanced by savings elsewhere. Efficiencies have been found from a significant number of activities across the service such as vacancy management savings and home to school transport efficiencies. The Learning and Development Partnership has returned a surplus that is being carried forward into 2011/12 to help with their planned restructuring and outsourcing costs.

In addition to the statutory carry forward for schools and DSG related items, and that occasioned by the new arrangements for unspent grant, carry forwards have been approved in respect of youth and community initiatives, closure costs of the extended school service and some children and family services including the Safeguarding Children's Board Partnership. In total these amount to £277,000.

**Environment, Economy and Culture**

This Directorate has ended the year with an under spend of just under £13.8 millions. However the major component of this is the revised accounting arrangements for unused grants. Once this is excluded an under spend of just over £2.5 millions is determined. The main area of under spending relates to waste disposal that benefited from a series of negotiated savings linked to In-Vessel composting and tipping away payments. Highway maintenance budgets are overspent marginally by £400,000. This net figure contains some overspend on winter maintenance, the deferment of planned maintenance works to meet safety defect expenditure and the increased street lighting energy costs which were offset by delayed street lighting maintenance.

Towards the end of the calendar year the County experienced a prolonged spell of adverse winter weather. Estimates at the time indicated that if the weather pattern of previous years was repeated and there were further bad weather spells in February and March then this could easily lead to a budget overspending of £3 millions that would totally extinguish winter emergency funds. In the event, the weather for the remainder of the winter moderated. Although some limited additional road salting was needed to keep the road network functioning, further major expenditure was not required. As a result the overspending on winter service operations was limited to £1.1 millions which have been met from savings elsewhere in the Directorate's budget.

The Government has made available £200 millions for road maintenance and repair following the early winter's severe weather. The Council's share of this is approximately £9.3 millions. Unusually this money was paid over before 31 March 2011 although capacity to spend this money rests in 2011/12. This grant together with grants for public transport and other grants and contributions amount to £11.2 millions.

In addition to the carry forward of unspent grants and contributions, carry forward approvals for ongoing projects including Broadband UK, Exeter Energy from Waste, Deepmoor IVC plant and the Devon Drivers' Centre have been given. In total these requests amount to £598,000.

**Adult and Community Services**

The Adult and Community Services Directorate recorded an under spend of £6.9 millions for the year including £1.6 millions of unused grants and contributions. The under spending allows for a planned contribution of £2.5 millions to the reserve ear-marked for extra care housing. Plans to use this reserve to alleviate the pressure on residential accommodation for older people are being advanced in co-operation with district councils.

There have been increases in demand for services in 2010/11, and the Directorate has taken firm action to restrain spending in all areas. This reduced, but did not eliminate, overspending on learning disability and mental health services totalling £2.7 millions. In order to alleviate potential spending pressure action was taken to reduce spending on support services and to defer as much investment in transformation and preventative services as possible. These actions together with the late announcement of a contribution from the NHS for winter spending pressures has resulted in the net under spending identified earlier.

In addition to the carry forward of unspent grants, further approvals for supporting people services, libraries restructuring, carers' health and wellbeing checks totalling £599,000 have been given.

**Office of the Chief Executive and Corporate Resources**

These directorates produced a combined under spend of £2.6 millions. This was principally due to the impact of the vacancy management policy, delay in implementing ICT initiatives and delayed commissioning of some projects. The combined carry forward request into 2011/12 is for £874,000 which includes £379,000 for unused grants and contributions. Of the remainder the largest elements of carry forward is for delayed commissioning of locality budgets.

**Other Items**

2010/11 investment returns have continued at very low levels. Commentators argue that Base Rate increases are expected late in 2011, but this is far from certain. As cash balances are used to finance capital expenditure an improvement in return in 2011/12 is not expected. Despite this interest from investments and capital financing produced a combined under spending of £2.7 millions. A reduction in the size of the capital programme and slippage in delivery of some projects has delayed borrowing resulting in a substantial saving. As noted earlier returns on investments continues to be depressed.

The savings on capital financing charges has been offset by payments for one-off costs of successful job evaluation appeals. As the appeals process has come to a close it is anticipated that further costs will not be incurred.

Provisions are maintained for known obligations where a reasonable degree of certainty exists over the level and timing of payments. The largest of these is for insurance liabilities falling on the Council totalling £11.9 millions. Further details of provisions are provided in Note 20 on page 71.

**General Balances**

A review of the financial risk assessment prepared when the 2011/12 Budget was considered indicates that the Council should hold working balances of about £14 millions.

Working balances at 31st March 2010 were £14.292 millions. As a result of outturn, it has been possible to make a further contribution of £98,000, bringing the level at year-end to £14.390 millions. When combined with school balances of £14.844 millions the total balances are £29.234 millions as shown in the Movement in Reserves Statement on page 23.

### Earmarked Reserves

At the beginning of the financial year, earmarked reserves (excluding schools and non-schools carry forwards) stood at just over £38 millions. During the year, budgeted and other contributions have been made to earmarked reserves and some spending has taken place. The net effect has been to increase earmarked reserves by £10 millions so that at the end of 2010/11 the earmarked reserves (excluding schools and non-schools carry forwards) total just under £48 millions. This is a better position than was anticipated and can only benefit the Council as a reduction in Government grant funding for local authorities between 2011/12 and 2014/15 is certain and demand for financing of projects designed to stimulate the local economy and meet other pressing needs is emerging.

Changes to the accounting policy for grants have meant that the level of carry forward has increased significantly over previous periods. A total of £24.720 millions is included in earmarked reserves for carry forward of which £22.751 millions relates to the revised accounting treatment for grants. Details of earmarked reserves including school and non-school carry forwards are shown in Note 10 on page 53.

In aggregate the level of reserves and balances is regarded as sufficient to meet current needs and to provide some assurance that unforeseen risks and emergencies can be managed.

## Capital Spending

The 2010/11 Capital Programme represented a further major investment in the Council's asset base. The original programme of £175.401 millions was increased through slippage from 2009/10. Further in year approval and re-phasing took place to give a final programme of £249.453 millions. Year-end accrued spending totalled £143.547 millions. £66.574 and £23.054 millions of the slippage is being carried forward into 2011/12 and 2012/13 respectively.

The first phase at Bideford Community College was completed on time and under budget in July 2010, with phase two commencing in September 2011. Significant projects were completed at Cheriton Fitzpaine, Oaklands Park, Dawlish and Clyst Vale Community College. A major project at Montgomery Primary School commenced on site in August 2010 and is due to complete by the end of 2011. The improvements at Shaldon Primary School started in June, with the project due to complete shortly and new sports projects were let at Teignmouth Community College and Teign School. The Better Buildings and Children's Centres schemes were completed during the year.

This year saw some reductions being made to the Capital Programme as central government funding reduced. The Building Schools for the Future programme was withdrawn.

The 2010/11 Capital Programme was significantly influenced by the changes in Government funding for transport, following the Comprehensive Spending Review. Despite this, good progress was maintained on the major projects funded from the Community Infrastructure Fund - Redhayes Bridge; M5 Junction 30; and the Kingsteignton development package, all of which were completed on time. Significant progress has also been made in delivering the site infrastructure for Exeter Science Park.

Construction of a new recycling centre at Pinhoe neared completion as part of the strategy to improve recycling rates. Progress was made towards finalisation of the contract for the Energy from Waste plant at Exeter, and PFI credits were secured for the South West Devon Waste Partnership plant at Plymouth.

The extension of the County-Wide cycle routes continues to provide alternative transport routes for work and leisure and contributes to the reduction of the carbon footprint of Devon.

The 2010/11 financial year has been a challenging period for the Adult and Community Services Directorate's capital programme. £3.4million was spent across 60 projects, which included the purchase of community equipment, upgrades to buildings operated by the directorate, and projects to enhance facilities of library services.

Significant progress within the year has been made on the Library & Community Hubs at Cullompton and Newton Abbot. There was also substantial progress towards completing several projects including Library Facilities at Dawlish, the Newholme (Honiton) Community Hub, and the Castle Hospital at Okehampton which is another example of working in partnership with colleagues in NHS Devon to provide facilities for Health and social care services.

The County Farms Estates Useable Capital Receipts Reserve was used in 2010/11 to fund 7 projects. These schemes being the provision of essential farm infrastructure upgrades in accordance with the approved County Farms Estate Finance Plan 2002 to 2012 for Southacott Farm, Mariansleigh; Moorhouse Farm, Bovey Tracey; Prixford Barton Farm, Marwood; Great Stone Farm, South Molton; Cobham Week Farm, Bridestowe; Higher Leigh Farm, Churchstow and Lower Alminstone Farm, Woolsery. The Council continued to invest in compliance (Disability Discrimination Act and Nitrate Vulnerable Zones).

## Funds for Capital and Other Commitments

The capital programme required finance of £143.547 millions. Borrowing was met from internal sources during 2010/11 and amounted to £69.546 millions. No new long term borrowing took place during the year. Other sources of finance were grants and contributions totalling £60.762 millions, capital receipts from the sale of assets contributed funding of £10.684 millions and direct revenue contributions and use of reserves provided £2.555 millions.

The cost of servicing the Private Finance Initiative for Exeter Schools is met annually from revenue budgets. An outstanding liability of £58.2 millions is included on the balance sheet at the 31 March 2011 which will be written down as payments are made against the contract over its remaining life. Note 40 on page 99 provides further detail.

## Borrowing

The Council borrows over the long-term to finance capital expenditure and in the short-term, to smooth the cash flow requirements of the authority on a daily basis.

The principal source of borrowings in excess of one year (i.e. classified as long-term borrowing) is the Public Works Loan Board although some borrowing from commercial lenders has taken place. At the year-end, long-term borrowing totalled £531.7 millions. This is a decrease on the previous year due to a transfer of £53.8 millions of borrowing to Plymouth City Council and Torbay Council for liabilities arising from local government reorganisation in 1998.

## Pensions Liability

The pension liability is based on an actuarial valuation and represents the benefits that have been accrued by members of the local government pension scheme. At the end of March 2011 the liability is estimated at just over £1,405 millions, which is set against estimated assets of £886 millions. These estimates reflect the position as at 31 March 2011 and the conditions and actuarial assumptions prevailing at that time. The situation will change, for example, with changes in the financial performance of the Pension Fund investments and changes to the provisions of the Local Government Pension Scheme.

Changes to actuarial assumptions, have had a significant impact on the net pension liability included in the accounts. For 2010/11 the net liability has decreased by just under £311 millions from £894 millions to £519 millions. This decrease is partly due to an improvement in the return on investments in comparison with previous years, changes to the indexation of future pension benefits (from RPI to CPI) and mortality assumptions.

The pension fund deficit does not represent an immediate call on the Council's reserves but simply provides a snapshot (at 31st March 2011), with the value of assets and liabilities changing on a daily basis. It is arguable whether the annual calculation of the pension fund deficit accurately reflects the long run position, many believe it does not. The triennial valuation undertaken by the actuary has been completed. It shows a marginal improvement in funding which has allowed the County Council's pension fund contributions to remain unchanged for the next 3 years.

The Government is conducting a wide ranging review into public sector pension arrangements which may require some cost sharing with employees and remodelled benefits for those who will ultimately receive pensions from the scheme. The Government has already indicated that it will follow the template for reform produced by Lord Hutton. An announcement is expected during the summer which will give some indication of the detailed considerations to be taken into account in making the proposed changes.

## Events after the balance sheet date

- Academy Schools – for details please see page 49
- Devon Cleaning and Catering Services (DCCS) – for details please see page 49

## Conclusion

There have been significant and fundamental changes to the way in which the Statement of Accounts has been prepared for 2010/11. Nonetheless it records that as a result of careful management of the Council's resources a reasonable level of reserves has been maintained, leaving the Council in a sound financial position to cope with future challenges.

The impact of the economic downturn is that a significant squeeze on public expenditure, including that for local authorities, will take place during the next four years. Front loaded reductions have already been announced. The financial resilience of the Council during this period will be recorded in future years' financial statements and will give a unique insight into the robustness of its financial management structures.

The preparation of these financial statements with such a high degree of change has required a long and painstaking effort over many months. I would like to place on record my thanks to members and officers of the Council who have done so much to achieve this and who continue to secure the financial health of the Council.

***Mary Davis***

County Treasurer

29th June 2011

# Statement of Responsibilities for the Statement of Accounts

## The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this Authority, that Officer is the County Treasurer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

## Responsibilities of the County Treasurer

The County Treasurer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the County Treasurer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice.

The County Treasurer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

## Certificate of the County Treasurer

I hereby certify that this Statement of Accounts for the year ended 31st March 2011 has been prepared in accordance with the Accounts and Audit Regulations 2003 (as amended) and that it gives a true and fair view of the financial position of the Authority as at 31st March 2011 and its income and expenditure for the year ended 31st March 2011.

***Mary Davis***

County Treasurer
29th June 2011

# Annual Governance Statement 2010/11

## Scope of Responsibility

Devon County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. Devon County Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs so as to facilitate the effective exercise of its functions and manage risk

The County Council has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code can be obtained from the County Treasurer. This statement explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit Regulations 2011

## Purpose of the Governance Framework

The governance framework comprises of the systems and processes and culture and values by which the Council is directed and controlled; also the activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks not being realised - and the impact should they be realised - and to manage them efficiently, effectively and economically.

Satisfactory controls to support statements made in this Annual Governance Statement are essential and in endorsing it the Council's officers confirm that input to systems and processing of transactions is complete for the financial year in question and that there were no material or significant delays or backlogs of either input or processes that would result in financial or other records being incomplete.

## The Governance Framework – The Council's Constitution

The Constitution is fundamental to the working of the County Council, transcending the six core principles of corporate governance in the CIPFA/SOLACE Framework which form the basis of the response set out in the attached schedule.

The Constitution is the Council's Code of Corporate Governance. Framed in accordance with statute and Government guidance and evolved in the light of experience and subsequent legislation, it sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.

The Constitution is the guarantor of the continuing openness, accountability and integrity of the Council's decision-making processes and sets a series of exacting standards against which the Council's actions can be judged and, if necessary, challenged.

The Constitution is at the heart of the Council's business:

- It allocates power and responsibility within the Council and between it and partner organisations;
- It delegates authority to act to the Leader, Committees and officers;
- It enables the people of Devon to ask questions at certain meetings and to have them answered or submit petitions;
- It sets down the procedures by which the people of Devon may give their views on the key decisions which the Council's Cabinet is to take;
- It regulates the behaviour of individuals and groups through codes of conduct, protocols and standing orders.

The Constitution comprises 16 Articles setting out the basic rules governing all aspects of the working of the Council (Part 2) and is then divided up into:

- the elements which define the Council’s internal organisation, standing orders, financial regulations, schemes of delegation and terms of reference, procedures covering Cabinet and Scrutiny, Risk Management and Codes of Conduct (Parts 3–9);
- working practices which supplement these formal rules (Part 10);
- documents which focus on the Council’s external operation through service delivery, community engagement and partnership working (Part 11).

In formulating its Constitution in 2002, the Council adhered closely throughout to the framework presented in Government's Modular Constitutions for English Local Authorities, enabling it to produce a constitution which was logical, integrated and accessible to members, officers, citizens and others interested in the way a local authority makes decisions and governs itself and its area. Then and subsequently, wherever legislation permitted local choice, the Council has framed its Constitution to take advantage of the most open and inclusive of the available options.

The Constitution is designed to meet all the necessary statutory requirements for instruments of governance and to include matters traditionally covered by local authority standing orders, financial regulations, schemes of delegation and terms of reference. It also contains the elements necessary to describe the Council's executive arrangements in a single, coherent document which can be used as a comprehensive point of reference by individuals and organisations inside and outside the Council. All the familiar elements can be found in the Constitution and the Council has sought to use the model format to create a genuinely accessible, meaningful instrument of governance.

The Council is committed to involving the community in setting its priorities, enabling citizens to raise matters with and convey their concerns to the Council and to considering the needs of all groups in the community and promoting democratic understanding and participation. The Council’s Constitution provides that framework.

## Review of Effectiveness

The County Council’s Constitution has been in force since 2002 and was last comprehensively reviewed in July 2009 and again in February 2010, reflecting changes introduced following the County Council elections in 2009.

A number of minor amendments were subsequently made to the Constitution during the year relating to the remits of Cabinet members and the terms of reference and membership of Scrutiny Committees.

The Constitution is published on the County Council’s website at http://www.devon.gov.uk/constitution.htm and is also available for Inspection at the Council's Offices together with the most recent Annual Report (also at http://www.devon.gov.uk/annualreport2008) and the Statement of Accounts for 2009/10 (also at http://www.devon.gov.uk/the_statement_of_accounts_2009_10-2.pdf )

The County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including systems of internal control. This review of effectiveness is informed by the work of managers within the authority who have a responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

With the abolition by the new Government of the CAA process, the Audit Commission's formal response to the self assessment undertaken by the Council in the latter part of 2009/10 ) - as part of the accelerated timetable for the 2010/11 Use of Resources Assessment – was never published, although informal indications from the Commission were that the Council's 'score' would have reflected well upon the organisation.

Details of processes applied in maintaining and reviewing the effectiveness of the governance framework are summarised below.

## The Constitution

The roles and responsibilities of the Council, its Cabinet and non-Cabinet Members are set out more fully in Articles 6 and 7 of the Constitution and in Part 3 (Responsibility for Functions). These were revised following the County Council elections in 2009 and are themselves balanced by the Codes of Personal Conduct set out at Part 6 of the Constitution.

The Council currently comprises 62 councillors, meeting together as the full Council for specific purposes, to decide the Council's overall policies and set the budget each year. Meetings of the Council and its Committees are normally open to the public. The Council appoints the Leader, Scrutiny Committees, the Standards Committee and all other committees. The Council receives the minutes of committees, and has power to vary or refer back decisions which are outside established policy. From time to time it also debates issues of particular relevance or topicality for the County.

The Council has acknowledged the potential impact of the provisions of the Localism Bill 2010 for its governance framework, when brought into force, including the new power of general competence for local authorities, governance arrangements including directly elected mayors, the abolition of the standards regime, enhanced community empowerment and availability of local referenda, community involvement in provision of services and potential acquisition of assets and reformation of the planning system including more localised neighbourhood plans.

## The Cabinet

The Cabinet is the part of the Council responsible for most day-to-day decisions. It is made up of a Leader and no more than nine other members (Cabinet Members), appointed by the Leader from amongst the membership of the Council. When major decisions are to be discussed or made, these are published in the Cabinet's Forward Plan in so far as they can be foreseen. These major decisions will be taken with council officers present at meetings of the Cabinet which will be open to the public except where personal or confidential information is discussed. The Cabinet has to make decisions which are in line with the Council's overall policies and budget. If it wishes to make a decision which is outside the budget or policy framework, this matter must be referred to the full Council to decide.

## The Overview and Scrutiny Function

Scrutiny Committees support the work of the Cabinet and the Council as a whole. They look at the effectiveness of the Council's own policies and inquire into matters of local concern. These investigations lead to reports and recommendations which advise the Cabinet and the Council on its policies, budget and service provision. Scrutiny Committees also monitor the Cabinets decisions. They may "call in" a decision which has been made by the Cabinet but not implemented. This enables them to consider whether the decision is appropriate and they may recommend that the Cabinet reconsiders it. They may also be consulted by the Cabinet or the Council on forthcoming decisions and the development of policy. An Annual Report is also prepared and considered by the County Council.

The Council's Scrutiny Committees continue to be Chaired by members of the opposition groups with Vice-Chairmen drawn from the party of the administration. These Committees continue to operate in a non-partisan way which it is believed has served both the electorate and the Council well in line with the Constitution and the Council's protocol governing relationships between the Cabinet and Scrutiny Committees. Members of the Council may place items on the agenda of any Scrutiny Committee, a right which has always effectively existed in the Constitution since it was first adopted in 2002, reflecting the requirements of the Local Government & Public Involvement in Health Act and its definition of 'any local government matter'.

Having previously acknowledged the need to review the roles and remits of the then Overview and Scrutiny Committees after the first 12 months of operation of the new Council, the composition and terms of reference of the Council's Scrutiny Committee was amended to create 4 separate Scrutiny Committees responsible for discrete services areas of the Council and the Policy & Resources Scrutiny Committee was empowered, in line with the revised CIPFA Code of Practice, to examine and comment upon the Council's Treasury Management Strategy prior to it being adopted by the Council as part of its annual budget considerations.

In light of the unprecedented changes faced by the Council in setting future budgets, a revised format was piloted in 2010 for scrutinising the Council's budget with a joint all-day session of the four Scrutiny Committees where all scrutiny Members could critique/question/challenge the detailed budget proposals across all directorates and services, to better understand the implications of budget reductions across the whole Council and make more effective recommendations to Cabinet and the Council. In addition a dedicated electronic mailbox for Members was established to enable them to ask detailed questions on the budget in advance of the meeting referred to above, responses to which would then be circulated to all Scrutiny Committee members.

The Cabinet and Corporate Leadership Team remain appreciative of the work undertaken by Overview/Scrutiny Committees and acknowledge that it has made a major contribution to the work of the Council, especially in areas where detailed objective research and analysis needed to be done.

## Organisational Performance

The Council agreed revised organisational structures for the Council and the Corporate Leadership Team, reflecting the impact of the new Government's Comprehensive Spending Review, the Council's financial settlement for 2011/12 and beyond, the general direction of travel indicated by Government for the reform of the public realm services and the need for a more flexible organisational structure to respond to those challenges and better equip and position the Council to focus on its future strategic commissioning responsibilities.

The existing formal Directorate structure would be replaced with a corporate single organisation approach under the Leadership of the Chief Executive and two Strategic Directors with accountability for service outcomes under a new Head of Service level; ensuring that accountability for service performance to rest with those who actually manage services. These new structures are anticipated to be in place by September 2011, at the latest.

The Council endorsed proposed new arrangements for the provision of children's health services, in partnership with NHS Devon. Recognising the imperative on NHS Devon under the national Transforming Community Services (TCS) to transfer its community services to alternative providers by 1 April 2011 and the pre-existing arrangements with the Council's Children & Young People's Services for the delivery of services for children with additional needs it was agreed that the County Council should manage Children's Health Services on behalf of NHS Devon, for an initial period of two years.

In a similar vein the Council also agreed:

(a) to establish a Joint Venture Company (JVC) to provide and undertake services currently provided for schools by the Council's in-house provider, Devon Catering and Cleaning Services commencing in April 2011, phased over time;

(b) to explore detailed proposals for the future management and delivery of the Devon Youth Service, moving to a 'commissioning' role, to ensure it is fit for purpose in delivering the service to vulnerable young people in line with national policy direction. Detailed proposals will be considered further during 2011/12;

(c) to establish a joint venture arrangement for the Learning & Development Partnership, to secure the delivery of school improvement and inclusion services;

(d) approval to the final business case submitted by the South West Devon Waste Partnership for the procurement of waste treatment services for the South West of Devon on behalf of the formal Partnership between the County Council and Plymouth City and Torbay Councils established for that purpose.

In relation to service provision generally, the outcomes of the Annual Performance Assessment for Adult Care Services undertaken by the Care Quality Commission for 2009/10 showed that, overall, the Council was performing 'Well' in Delivering Outcomes and that it was regarded as 'Excellent' in "Making a Positive Contribution" in recognition of the involvement of clients, their carers and partners, providers and staff in making decisions and redesigning services. Only one other Council in the South West had received a similar rating for this area.

The County Council's Children & Young People's Services were also adjudged by OFSTED to be performing 'well' in its Annual rating for 2010. OFSTED had acknowledged that the very large majority of services, settings and institutions inspected were good or better and that there had been improvements in most aspects of provision since the previous year.

Given, in both of the above instances, that levels of performance and expectation were raised each year through a combination of higher targets and standards, simply maintaining performance levels was an achievement and improving them even more noteworthy.

In relation to Members' Allowances - and as a result of issues and concern expressed around expenses claims of Members of Parliament – the Audit Committee had suggested the Council review its controls for payment of members allowances. The subsequent Auditors Report concluded that the process for payment of allowances was robust and well controlled and the controls mitigated the potential risks. There were therefore no issues arising from the examination of systems and controls that would warrant inclusion in this Annual Governance Statement or remedy by the Council.

Similarly, in relation to the management and allocation of Performance Reward Grant funding received by the County Council under LPSA2, a review by the Devon Audit Partnership of the procedures and processes followed concluded that - particularly in the absence of any detailed requirements on auditing and control by the Department of Communities and Local Government – all expenditure had satisfactorily followed normal County Council accounting practices and that, subsequently, there were no issues arising from the examination of systems and control that would warrant inclusion in this Annual Governance Statement.

## The Standards Committee

The Standards Committee continued to exercise its role in monitoring complaints and standards. The number of complaints received against Councillors remains small – notwithstanding the changes in operation brought about by the Local Government & Public Involvement in Health Act - with the Council's Standards Committee now being responsible for the local investigation and determination of complaints against Councillors. There were no cases locally where a councillor was found to have been in breach of the Council's Code of Conduct. That Committee particularly welcomed the favourable comments of the Ombudsman had on the way the Council had dealt with complaints generally and the Council's work in this area of activity.

Efficient, effective and ethical governance protects the public interest and the Council itself. Members and Officers are supported by a wide range of polices and Codes of Practice enunciated in the Council's Constitution and also by a wide range of training opportunities tailored to meet their needs. The Council's Governance Framework is reviewed annually and any issues for the future governance of the Council are highlighted and addressed at that time.

The Standards Committee Annual Report for 2001/11 may be viewed at:
http://www.devon.gov.uk/index/councildemocracy/decision_making/full_council/standards.htm

However, the Council notes that the Coalition Government's Programme for Government of 20 May 2010 contained a commitment to abolish the Standards Board regime, as proved for in the Localism Bill published in December 2010. While there is now some clarity about the content of the Bill the Council will need to determine what exactly will be put in its place, locally.

Notwithstanding the proposed legislation, Government is committed to maintaining high standards of conduct in office and ensuring that councillors do not abuse their office for personal gain by putting their own interests before those of the general community or the area they represent. It has said that wilful failure to comply with those requirements will constitute a criminal offence.

The Standards Committee itself recognises the importance of retaining a structure which will not only uphold public confidence and contribute to the maintenance of high standards. but will also protect members themselves by providing an authoritative means of testing allegations made against them.

## The Audit Committee/ Devon Audit Partnership

The Audit Committee is, as always, vigilant in monitoring the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources including the work of the Council's Internal Audit team and the Audit Commission and the application of the Council's Risk Management policy. This resulted in an unqualified conclusion by the Audit Commission in its Annual Governance Report.

The Audit Committee will also review separately, and on a regular basis, progress with and implementation of any recommendations made in Audit Reports into specific areas of activity to ensure they have been adhered to and appropriate management action taken.

The Devon Audit Partnership was established by the Council in conjunction with Plymouth City and Torbay Councils came into operation on 1 April 2009 to provide shared internal audit services (as a means of improving services through joint working and maximising efficiencies and economies of scale) reporting to the new Devon Audit Partnership. The Partnership and democratic arrangements are working well but will continue to be monitored.

## The Investment and Pension Fund Committee

Accounting arrangements require separate accounts to be prepared for the County Council and the Devon Pension Fund. Recognising the need for clear governance arrangements for managing these Accounts the Council previously expanded the remit of the Investment & Pension Fund Committee (as it already monitored the activities of that Fund during the year) to review and approve the accounts of the Devon Pension Fund and to ensure appropriate accounting policies was introduced in the same way as the Audit Committee was responsible for monitoring and approving the Council's main accounts. As previously agreed with the Audit Commission, this process was implemented for the 2009/10 accounts.

## Engagement and Participation

The County Council has always prided itself on the work it does, over and above statutory consultations, to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the Council. Examples of this are the Council's Communications Strategy are the Devon Voice (Residents Panel), Parent/Carer Voice, and the Young Peoples' Shadow Executive and Scrutiny Forums (Hear by Right) and Community ("Tough Choices") Roadshows held by the Leader of the Council across the County as part of a wider exercise by the County Council to consult and involve local people in determining the Council's priorities.

The Council had previously established a Senior Council, in partnership with the Department for Work and Pensions, to act as an independent, non-political body to lobby for, and be part of local policy making to provide, better local services for the over 50s. Devon was one of only eight local authority areas in the country chosen by the Government to pilot new ways of supporting and empowering people over 50, of which the Senior Council was but one element. However, acknowledging that the existing contract would cease at the end of March 2012 discussions had taken place between the County Council, the Senior Council and stakeholders in the latter part of the year about how to take this forward and in light of the comprehensive spending review without diminishing the valued role and contribution played by the Senior Council in the past.

The proposals outlined by the Council would see the creation of a single contract for health and social care involvement activity spanning all current providers which would also enable those organisations to reduce their costs by forming a consortium whilst retaining the highest level of engagement activity as possible. This Joint Engagement Strategy was intended to secure the involvement of all relevant groups in a way which would not only ensure parity between the different groups but make the best use of the investment in this activity by the County Council and NHS Devon. The process was ongoing with a view to new arrangements being in place by June 2011.

On a more local level, and as part of the Council's desire to develop a more strategic and coordinated approach to community engagement a pilot exercise in locality engagement was undertaken in Ivybridge, modelling the community board approach and bringing together elements of intelligence and profiling, service performance and analysis of parish plans in support of the local county councillors leading the community workshop in December. This had proved to be useful and will form the basis of a model for development in other areas.

## Significant Governance Issues

The continuing impact of the unprecedented turmoil in the financial markets over the previous three years justifies the continuing focus on Treasury Management Practices. The County Council's treasury management practices are soundly based on the principle that when balancing risk and return the security and liquidity of an investment is given a higher priority than the yield.

Throughout the year, the Council has been active in managing investment and interest risk. Levels of liquidity and active treasury management have meant that no short term borrowing was required. Similarly, no long term borrowing was undertaken during this financial year with all capital expenditure having been funded by revenue balances.

The Council also regularly reviews and updates its Investment Strategy and its Treasury Management Policy and Practices to ensure that they reflected best practice guidance as issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). In line with that guidance, the policies were first scrutinised - as indicated above - by the Council's Policy & Resources Scrutiny prior to consideration by the Council's Cabinet.

At the time this Annual Statement was in preparation – and over and above the impact upon the organisation and services of the Comprehensive Spending Review and financial settlements for 2011/12 and beyond – a great deal of uncertainty remains over the impact upon the Council's local authority's governance framework of the Government's intentions for and direction of travel of public realm services through, in particular:

- the implications of the Localism Bill,
- the shape of any future arrangements to be made by the County Council for the discharge of the functions of a Standards Committee,
- the implications of reorganising the NHS set out in the Health Bill published in January 2011 including:
    - the transfer of local health improvement functions to local councils;
    - the role of local councils in leading joint strategic needs assessments;
    - the establishment by councils of Health and Wellbeing Boards and enhanced Scrutiny functions;
    - transferring responsibility for funding and contracting of the new local Healthwatch (replacing LINK); and
    - increased joint commissioning and pooled budgets
- the implications of the decision by the Secretary of State for Communities and Local Government to abolish the Audit Commission from 2012.

While the County Council was already planning for the future, greater clarity over the local government landscape of the future would be beneficial not least because the proposed changes to the NHS would require formal Shadow Arrangements to be put in place in 2012 at the latest.

The Council formally places on record and expresses its appreciation to all of its staff for their continuing commitment to the delivery of high quality services for the people of Devon throughout this period.

## Certification

We have been advised on the result of the review of the effectiveness of the governance framework undertaken by the Cabinet, the Standards Committee, the Audit Committee, the Investment & Pension Fund Committee and by Scrutiny Committees and the plans, as summarised above, to address weaknesses and ensure continuous improvement of systems is in place.

We will over the coming year continue to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

**Signed** Councillor Sir Simon Day

Chairman of the Audit Committee, on behalf of Devon County Council

**Signed** P J Norrey

Chief Executive, on behalf of Devon County Council

24th June 2011

# Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The 'Surplus or (deficit) on the provision of services' line shows the true economic cost of providing the authority's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The 'Net increase/decrease before transfers to earmarked reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves made by the Council. The General Fund Balance includes reserves held by schools (School carry forwards); details are included within Note 10.

| | General Fund Balance £000 | Earmarked General Fund Reserves £000 | Capital Grants Unapplied £000 | Capital Receipts Reserve £000 | **Total Usable Reserves £000** | **Unusable Reserves £000** | **Total Authority Reserves £000** |
|---|---|---|---|---|---|---|---|
| **Balance at 1st April 2009** | **29,930** | **50,845** | **3,347** | **55,397** | **139,519** | **299,311** | **438,830** |
| **Movement in reserves during 2009/10** | | | | | | | |
| Surplus/(deficit) on the provision of services | (23,363) | 0 | 0 | 0 | **(23,363)** | **0** | **(23,363)** |
| Other Comprehensive Income & (Expenditure) | (319,419) | 0 | 0 | 0 | **(319,419)** | **0** | **(319,419)** |
| Total Comprehensive Income & Expenditure | (342,782) | 0 | 0 | 0 | **(342,782)** | **0** | **(342,782)** |
| Adjustments between accounting basis & funding basis under regulations (Note 9) | 333,504 | 0 | 4,405 | (4,921) | **332,988** | **(332,988)** | **0** |
| Net Increase/Decrease before Transfers to Earmarked Reserves | (9,278) | 0 | 4,405 | (4,921) | **(9,794)** | **(332,988)** | **(342,782)** |
| Transfers to/(from) Earmarked Reserves (Note 10) | 9,239 | (9,239) | 0 | 0 | **0** | **0** | **0** |
| **Increase/(Decrease) in 2009/10** | **(39)** | **(9,239)** | **4,405** | **(4,921)** | (9,794) | (332,988) | (342,782) |
| **Balance at 31st March 2010 Carried Forward** | **29,891** | **41,606** | **7,752** | **50,476** | 129,725 | (33,677) | 96,048 |
| **Movement in reserves during 2010/11** | | | | | | | |
| Surplus/(deficit) on the provision of services | 28,200 | | | | **28,200** | | **28,200** |
| Other Comprehensive Income & (Expenditure) | 280,171 | | | | **280,171** | | **280,171** |
| Total Comprehensive Income & Expenditure | 308,371 | 0 | 0 | 0 | **308,371** | **0** | **308,371** |
| Adjustments between accounting basis & funding basis under regulations (Note 9) | (278,265) | | (165) | (7,159) | **(285,589)** | **285,589** | **0** |
| Net Increase/Decrease before Transfers to Earmarked Reserves | 30,106 | 0 | (165) | (7,159) | **22,782** | **285,589** | **308,371** |
| Transfers to/(from) Earmarked Reserves (Note 10) | (30,763) | 30,763 | | | **0** | | **0** |
| **Increase/(Decrease) in 2010/11** | **(657)** | **30,763** | **(165)** | **(7,159)** | 22,782 | 285,589 | 308,371 |
| **Balance at 31st March 2011 Carried Forward** | **29,234** | **72,369** | **7,587** | **43,317** | 152,507 | 251,912 | 404,419 |

# Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulation this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

| 2009/10 Gross Expenditure Restated | 2009/10 Gross Income Restated | 2009/10 Net Expenditure Restated | | Notes | 2010/11 Gross Expenditure | 2010/11 Gross Income | 2010/11 Net Expenditure |
|---|---|---|---|---|---|---|---|
| £000 | £000 | £000 | | | £000 | £000 | £000 |
| | | | **General Fund continuing operations** | | | | |
| 72,738 | (10,269) | 62,469 | Cultural, Environmental, Regulatory and Planning Services | | 74,681 | (8,339) | 66,342 |
| 677,423 | (522,850) | 154,573 | Children's and Education Services | | 749,048 | (563,076) | 185,972 |
| 135,806 | (30,817) | 104,989 | Highways and Transport Services | | 125,712 | (32,236) | 93,476 |
| 259,994 | (65,082) | 194,912 | Adult Social Care | | 257,886 | (62,550) | 195,336 |
| 22,195 | (20,148) | 2,047 | Housing Services (primarily supporting people) | | 20,083 | (865) | 19,218 |
| 3,394 | 0 | 3,394 | Corporate and Democratic Core | | 3,564 | | 3,564 |
| (5,046) | 0 | (5,046) | Non Distributed Costs | | (4,096) | | (4,096) |
| 4,663 | (1,347) | 3,316 | Central Services to the Public | | 3,993 | (1,701) | 2,292 |
| 816 | 0 | 816 | Exceptional items not included in costs of specific services | 7 | (126,999) | | (126,999) |
| **1,171,983** | **(650,513)** | **521,470** | **Cost of Services** | 26 | **1,103,872** | **(668,767)** | **435,105** |
| 1,397 | | 1,397 | Other Operating Expenditure | 12 | 80,484 | | 80,484 |
| 82,757 | (3,488) | 79,269 | Financing and Investment Income and Expenditure | 13 | 61,160 | (1,926) | 59,234 |
| | (578,773) | (578,773) | Taxation and Non-specific Grant Income | 14 | 0 | (603,023) | (603,023) |
| **1,256,137** | **(1,232,774)** | **23,363** | **Surplus or Deficit on Provision of Services** | | **1,245,516** | **(1,273,716)** | **(28,200)** |
| | | 41,496 | (Surplus) or deficit on revaluation of non-current assets | | | | (12,218) |
| | | 0 | (Surplus) or deficit on revaluation of available for sale financial assets | | | | (102) |
| | | 277,923 | Actuarial (Gains) or losses on pension assets and liabilities | | | | (267,851) |
| | | **319,419** | **Other Comprehensive Expenditure & Income** | | | | **(280,171)** |
| | | **342,782** | **Total Comprehensive Expenditure & Income** | | | | **(308,371)** |

# Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

| **1st April 2009 Restated** | **31st March 2010 Restated** | | **Notes** | **31st March 2011** | |
|---|---|---|---|---|---|
| **£000** | **£000** | | | **£000** | **£000** |
| 1,493,696 | 1,500,368 | Property, Plant & Equipment | 16 | 1,439,046 | |
| 82 | 662 | Intangible Assets | 17 | 827 | |
| 5,017 | 5,000 | Long Term Investments | | 0 | |
| 61 | 61 | Investments in Associates & Joint Ventures | | 247 | |
| 88,059 | 87,099 | Long Term Debtors | 18 | 31,965 | |
| 1,586,915 | 1,593,190 | **Long Term Assets** | | | 1,472,085 |
| 144,560 | 55,471 | Short Term Investments | 19 | 65,630 | |
| 2,483 | 2,532 | Inventories | | 1,643 | |
| 78,445 | 67,526 | Short Term Debtors | 21 | 79,181 | |
| 47,253 | 69,963 | Cash and Cash Equivalents | 23 | 55,638 | |
| 1,640 | 1,790 | Assets held for sale | 24 | 12,081 | |
| 274,381 | 197,282 | **Current Assets** | | | 214,173 |
| (14,755) | (8,516) | Provisions | 20 | (9,313) | |
| 0 | (471) | Short Term Borrowing | | (472) | |
| (118,309) | (109,011) | Short Term Creditors | 21 | (134,349) | |
| (133,064) | (117,998) | **Current Liabilities** | | | (144,134) |
| (7,984) | (10,054) | Provisions | 22 | (9,311) | |
| (613,878) | (585,437) | Long Term Borrowing | 19 | (531,676) | |
| (646,613) | (951,901) | Other Long Term Liabilities | | (575,375) | |
| (20,927) | (29,034) | Capital Grants Receipts in Advance | | (21,343) | |
| (1,289,402) | (1,576,426) | **Long Term Liabilities** | | | (1,137,705) |
| **438,830** | **96,048** | **Net Assets** | | | **404,419** |
| 139,519 | 129,725 | Usable Reserves | | | 152,507 |
| 299,311 | (33,677) | Unusable Reserves | 25 | | 251,912 |
| **438,830** | **96,048** | **Total Reserves** | | | **404,419** |

# Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

| 2009/10 Restated £000 | | Note | 2010/11 £000 | 2010/11 £000 |
|---|---|---|---|---|
| **23,363** | **(Surplus) or Deficit on the Provision of Services** | | | **(28,200)** |
| | Adjustments for - | | | |
| (142,822) | Non cash movements that are included in net deficit | 27 | (127,432) | |
| 37,348 | Operating payments and receipts not included in net deficit | 28 | 35,187 | |
| (105,474) | | | | (92,245) |
| **(82,111)** | **Net cash flows from operating activities** | 29 | | **(120,445)** |
| **29,472** | Investing activities | 30 | | **133,371** |
| **29,929** | Financing activities | 31 | | **1,399** |
| **(22,710)** | **Net (increase)/decrease in cash and cash equivalents** | | | **14,325** |
| 47,253 | Cash and cash equivalents at 1 April 2010 | | | 69,963 |
| **69,963** | **Cash and cash equivalents at 31 March 2011** | 23 | | **55,638** |

# 1 Statement of Accounting Policies

## GENERAL CONCEPTS

### Introduction

The principles and practices of accounting require a Statement of Accounts to be prepared which give a true and fair view of the financial position, financial performance and cash flows of Devon County Council, and of group financial statements where the County Council has material interests in other organisations. These statements are prepared with due regard to the following:

- Quality of Information.
- Relevance – providing financial information that is useful for assessing the stewardship of public funds.
- Reliability – providing financial information that properly represents what it purports to represent, is neutral, free from material error, is complete within the bounds of materiality and which has been prudently prepared.
- Comparability – is consistent and can be compared with the previous year's activity.
- Understandability – allowing the reader to interpret the financial position of the Council.
- Materiality - an item of information is material to the Financial Statements if its misstatement or omission might reasonably be expected to influence assessment of Devon County Council's stewardship, economic decisions or comparison with other organisations, based on those financial statements.

### Overriding Accounting Concepts

**Accruals** – Financial Statements other than the Cash Flow Statement are prepared on an accruals basis.

**Going Concern** – The accounts are prepared on the assumption that Devon County Council will continue in operational existence into the foreseeable future i.e. there is no intention to significantly curtail the scale of the operation.

**Legislative Requirements** – It is a fundamental principle that where specific legislative requirements and accounting principles conflict, legislative requirements take precedence.

### General Principles

The general principles in compiling these accounts are those recommended by CIPFA. The County Council's accounts have been prepared in accordance with the Best Value Accounting Code of Practice and The IFRS Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

The accounting convention adopted is historical cost modified by the revaluation of certain categories of tangible fixed assets.

# POLICIES

## Accruals of Income and Expenditure

Activity is accounted for in the year it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides for the relevant goods and services.
- The full cost of employees is charged to the accounts for the period within which the employees worked. Accruals are made for salaries and wages, holiday pay, flexi leave and time off in lieu earned but unpaid at the year-end.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by contract.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

## Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 90 days or less from date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value

In the cash flow statement and Balance Sheet, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

## Charges to Revenue for Fixed Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Impairment losses where there are no, or insufficient, accumulated gains in the revaluation reserve against which they can be written off; and
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, revaluation, impairment losses or amortisation. It is, however, required to make annual provision from revenue to contribute towards the reduction in the overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance, or loans fund principal charges.). Depreciation, revaluation, impairment losses and amortisation are therefore replaced by revenue provision in the movement in reserves statement, by way of an adjusting transaction with the capital adjustment account for the difference between the two.

## Contingent Assets and Liabilities

Contingent liabilities are disclosed by way of note when there is a possible obligation which may require a payment or a transfer of economic benefits.  The timing of the economic transfer and the level of uncertainty attaching to the event are such that it would be inappropriate to make a provision.

Contingent assets are disclosed by way of note where inflow of a receipt or economic benefit is possible and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of Devon County Council.

## Employee Benefits

**Benefits payable during employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (eg cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave e.g time off in lieu) earned by employees but not taken before year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to surplus and deficit on the provision of services, but then reversed out through the movement in reserves statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

**Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before normal retirement date (or an officer's decision to accept voluntary redundancy) and are charged on an accruals basis to costs of services in the comprehensive income and expenditure statement when the Council is demonstrably committed to the termination of the employment.

Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, appropriations are required to and from the pensions reserves to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but un-paid at the end of the year.

**Retirement benefits**

Employees of the Council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by the Department for Children, Schools and Families (DCSF); and
- The Local Government Pension Scheme, administered by Devon County Council.

Both schemes provide defined benefits to members, earned as employees working for the Council.

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified by the Council. The scheme is therefore accounted for as if it were a defined contributions scheme. No liability for future payments of benefits is recognised in the balance sheet and the education service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

**The Local Government Pension Scheme**

The Local Government Scheme is accounted for as a defined benefits scheme:

The liabilities of the Devon pension scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method. This is an assessment of the future payments that will be made in relation to retirement benefits earned to date by the employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the iBoxx AA rated corporate bond index.

The assets of the Devon pension fund attributable to the Council are included in the balance sheet at fair value:

- quoted securities - current bid price;
- unquoted securities – professional estimate;
- unitised securities – current bid price;
- property – market value.

The change in the net pension liability is analysed into six components:

- Current service cost – the increase in liabilities as a result of years of service earned this year and allocated in the comprehensive income and expenditure statement to the revenue accounts of the service for which the employee worked;
- Past service cost – the increase in liability arising from current year decisions which relate to years of service earned in earlier years - debited to the surplus or deficit on the provision of service line in the comprehensive income and expenditure statement as part of non-distributed costs;
- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid is debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement;
- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on the expected long term return and credited to financing and investment income and expenditure line in the comprehensive income and expenditure statement;
- Gains and losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees and is debited/credited to the surplus or deficit on the provision of service line in the comprehensive income and expenditure statement as part of non distributed costs;
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions and are debited to the pension reserve.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the pension fund in the year. In the movement in reserves statement this means that there are appropriations to and from the pension reserve to remove notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at year end.

**Discretionary benefits**

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff, including teachers, are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## Events after the Balance Sheet Date

Balance sheet events have been considered up to the time the Statement of Accounts was authorised for issue.

Where an event after the balance sheet date occurs which provides evidence of conditions that existed at the balance sheet date the Statement of Accounts will be adjusted. Where an event after the balance sheet date occurs which is indicative of conditions that have arisen after the balance sheet date, adjustment will not be made. But where a category of events would have material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

## Exceptional items

Exceptional items are either included in the cost of the service to which they relate or separately disclosed on the face of the comprehensive income and expenditure statement if that degree of prominence is necessary in order to give a fair presentation of the accounts.

## Financial instruments

### Financial liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the balance sheet is the outstanding principal repayable and interest charged to the comprehensive income and expenditure statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the financing and investment income and expenditure line in the in the comprehensive income and expenditure statement in the year of the repurchase or settlement. Where repurchase has taken place as part of a restructuring of a loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the comprehensive income and expenditure statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where, in previous periods, premiums and discounts have been charged to the comprehensive income and expenditure statement, regulations allow the impact on the general fund balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term remaining on the loan against which the premium was payable or the discount receivable. The reconciliation of amounts charged to the comprehensive income and expenditure statement to the net charge required against the general fund balance is managed by a transfer to or from the financial instruments adjustment account in the movement in reserves statement.

## Financial Assets

**Financial assets are classified into two types:**

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
- Available for sale assets - assets that have a quoted market price and or do not have fixed or determinable payments.

**Loans and receivables**

Loans and receivables are initially measured at fair value and are carried at their amortised cost. Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for the interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the balance sheet is the outstanding principal receivable and interest credited to the comprehensive income and expenditure statement receivable for the year in the loan agreement.

The Council has made a small number of loans to other parties at less than market rates (soft loans). When soft loans are made a loss is recorded in the comprehensive income and expenditure statement for the present value of the interest foregone over the life of the instrument resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from these bodies, with the difference serving to increase the amortised cost of the loan in the balance sheet. Statutory provisions require that the impact of soft loans on the general fund balance is the interest receivable in the financial year. The reconciliation of amounts debited or credited to the income and expenditure account to the net gain required against the general fund balance is managed by a transfer from the financial instruments adjustment account in the movement in reserves statement.

Where assets are identified as impaired because of a likelihood, arising from a past event, that payments due under the contract will not be made, the asset is written down and a charge made to the comprehensive income and expenditure statement.

Any gains and losses that arise on derecognition of the assets are credited or debited to the comprehensive income and expenditure statement.

**Non-Current Assets held for sale**

Available for sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the amortised cost of the asset multiplied by the effective interest rate for the instrument. Where there are no fixed or determinable payments, income is credited to the comprehensive income and expenditure statement when it becomes receivable by the Council.

Assets are maintained in the balance sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price

- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market price – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the available for sale reserve and the gain or loss is recognised in the surplus or deficit on the revaluation of available for sale financial asset. The exception is where impairment losses have been incurred. These are debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, along with any net gain or loss for the asset accumulated in the reserve.

Where assets are identified as impaired because of a likelihood, arising from a past event, that payments due under the contract will not be made or fair value falls below cost, the asset is written down and a charge made to the comprehensive income and expenditure statement.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement along with any accumulated gains or losses previously recognised in the available for sale reserve.

Where fair value cannot be measured reliably the instrument is carried at cost less any impairment losses.

## Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant or contribution, there is reasonable assurance that the money will be received and the expenditure for which the grant is given is incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure are credited to the comprehensive income and expenditure statement.

Monies advanced as grants and contributions when conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant income (non-ring fenced revenue grants and all capital grants) in the comprehensive income and expenditure statement.

Where capital grants are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance in the movement of reserves statement and posted to the capital adjustment account. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

## Intangible Assets

Expenditure on assets that do not have a physical substance but are identifiable and controlled by the Council is capitalised when it is expected that future economic benefits or service potential will flow to the Council for more than one financial year. Control of an intangible asset will be secured by legal rights which grant access to benefits for a fixed period.  The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Councils goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the asset held by the authority can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the comprehensive income and expenditure statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the comprehensive income and expenditure statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the other operating expenditure line in the comprehensive income and expenditure statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact in the general fund balance. The gains and losses are therefore reversed out of the general fund balance in the movement of reserves statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

## Leases

### Finance leases (Council as Lessor)

Land and Buildings – the Council has 9 assets that are leased to tenants that meet the definition of a Finance Lease. All of the assets are included within Fixed Assets on the Balance Sheet. The present value at 31st March 2011 of the rental payments due to the Council is £0.78m. The lease debtor is not included within the Balance Sheet as the sum is not material. The annual lease income is accounted for within the comprehensive income and expenditure statement as it falls due.

### Finance leases (Council as Lessee)

Land and Buildings – the Council has 20 assets that are held on Finance Leases. The Council's interest in the assets is included within Fixed Assets on the Balance Sheet. The value of the assets at 31st March 2011 is £6.32m. The present value of lease payments to be made over the term is estimated to be £0.18m. The lease liability is not included within the Balance Sheet as the sum is not material. The annual lease payments are accounted for within the comprehensive income and expenditure statement as they fall due.

### Operating leases

Leases that do not meet the definition of Finance Leases are accounted for as Operating Leases. Rentals payable are charged to the comprehensive income and expenditure statement on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

Where the Council is the lessor, income is credited to cost of services in the comprehensive income and expenditure statement on a straight-line basis over the term of the lease, generally meaning that rentals are credited when they are due.

## Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice (BVACOP). The total cost absorption costing principle is used. The full cost of overheads and support services are shared between users in proportion to the benefits received with the exception of:

- Corporate and democratic core – costs relating to the Council's status as a multi functional, democratic organisation;

- Non distributed costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in BVACOP and are accounted for as separate headings in the comprehensive income and expenditure statement as part of cost of services.

## PFI

PFI and similar contracts are agreements to receive services, where the responsibility for making available the Property, plant and equipment (P,P&E) needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under it’s PFI schemes, and as ownership of the P,P&E will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its balance sheet as part of P,P&E.

The original recognition of these assets at fair value (based on the cost to purchase the P,P&E) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the balance sheet are revalued and depreciated in the same way as P,P&E by the Council

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the comprehensive income and expenditure statement
- Finance cost – an interest charge of 10.31% on the outstanding balance sheet liability, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement
- Payment towards liability – applied to write down the balance sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- Lifecycle replacement costs – proportion of the amounts payable is posted to the balance sheet as a prepayment and then recognised as additions to the P,P&E when the relevant works are actually carried out

## Prior Period Adjustments, Changes to Accounting policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted prospectively, i.e., in the current and future years affected by the change and do not give rise to prior period adjustments.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council’s financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes to accounting policies are as follows:

- Transition to International Financial Reporting Standards, and,

- Recognition of Voluntary Controlled School Fixed Assets.

The impact of these changes is disclosed in note 2 to the accounts.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

## Property, Plant and Equipment

Property, plant and equipment (P, P&E) are assets that have physical substance and are held for the provision of services or for administrative purposes  for more than one financial year.

**Recognition**: expenditure on the acquisition, creation or enhancement of P, P & E is capitalised on an accruals basis, provided that it yields benefits to the Council and the services it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of an asset is charged to revenue as it is incurred.

Expenditure below £50,000 for buildings and £12,000 for plant, vehicles and equipment is treated as revenue expenditure.

**Componentisation**
The requirement for componentisation for depreciation purposes is applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010.

The Council have voluntarily applied component accounting to all relevant assets from 1 April 2010. It is the Council's current policy to apply component accounting to its Schools asset base as it is only this group that componentisation has a material impact on the amount of depreciation charged.

The Valuer has assigned to each school a group of significant common components based upon indices collected by the Royal Institution of Chartered Surveyors. Each component represents a percentage of the overall asset value and a specific useful economic life. Devon County Council's components are as follows:

- Sub/Superstructure (55%; 60 years)
- Finishes (10%; 10 years)
- Fittings & Furnishings (5%; 10 years)
- Services (30%; 20 years)

Where a component is replaced or restored, the carrying amount of the old component shall be derecognised and the new component reflected in the assets carrying amount, subject to the recognition principles of capitalising expenditure.

**Measurement**: assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- Infrastructure, Community Assets and Assets under Construction are measured at historic cost;
- All other classes of asset are measured at fair value. If there is no market-based evidence of fair value because of the specialist nature of the asset and the asset is rarely sold, fair value is estimated by using a Depreciated Replacement Cost (DRC) approach.

Assets included in the balance sheet at fair value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains. Gains will be credited to the income and expenditure account where they arise from the reversal of a downward valuation/impairment loss previously charged to a service revenue account.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

**Impairment**: the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, it is written off against any revaluation gains attributable to the relevant asset in the revaluation reserve, with any excess charged to the relevant service revenue account.

**Disposals**: when an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the comprehensive income and expenditure statement as part of the gain or loss on disposal. Receipts from disposals are credited to the comprehensive income and expenditure statement as part of the gain or loss on disposal. Any revaluation gains in the revaluation reserve are transferred to the capital adjustment account. Amounts in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the usable capital receipts reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are apportioned to the reserve from the movement in reserves statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the capital adjustment account from the movement in reserves statement.

**Depreciation**: depreciation is provided for on all assets with a determinable finite life, by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use.

Depreciation is not charged in the year of acquisition. In the year of disposal depreciation is charged for up to the point of disposal.

Depreciation is calculated on the following bases:

- Buildings – straight-line allocation over the life of the property as estimated by the valuer
- Vehicles, plant and equipment – straight line over the life of the asset
- Infrastructure – straight-line over the life of the asset.

Where an asset has significant components with different estimated lives, these are depreciated separately.

Revaluation gains are depreciated with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the revaluation reserve to the capital adjustment account.

## Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits or service potential, but where the timing of the transfer is uncertain.

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not be required or a lower settlement than anticipated is made, the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party, this is recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

Back pay arising from unequal pay claims is deferred until the date on which the Council must pay the back payment. The difference between the amount of expenditure included in the comprehensive income and expenditure statement in each year for unequal pay back pay claims and the amount under the regulations charged to the general fund is included as a reconciling item in the movement in reserves statement. The double entry to the amounts credited and debited to the general fund is to a new reserve, the unequal pay back pay account.

## Reserves

### Usable Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the general fund balance in the movement in reserves statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to form part of the surplus or deficit on provision of services in the comprehensive income and expenditure statement. The reserve is then appropriated back into the movement in reserves statement so that there is no net charge against council tax expenditure.

### Unusable Reserves

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits that do not represent usable resources for the Council. These reserves are explained in the relevant policies.

## Revenue Expenditure Funded from Capital under Statute

Some expenditure can be classified as capital for funding purposes when it does not result in expenditure being carried on the Balance Sheet as a fixed asset. This is to avoid a charge on the general fund and impact on the year’s council tax. Such expenditure is charged to the comprehensive income and expenditure statement. Any statutory provision that allows capital resources to meet the expenditure is accounted for by debiting the capital adjustment account and crediting the general fund balance and showing this as a reconciling item in the movement in reserves statement. Where under the general provisions of the Code the statutory capital receipt is accounted for within the balance sheet, the statutory requirement is effected by crediting capital receipts reserve and debiting the capital adjustment account.

## Inventories (Stocks) and work in progress

Inventories are included in the balance sheet at the lower of cost and net realisable value with the exception of trading account stock which is valued at current cost and stock of road salt which is valued at cost.

## Value Added Tax (VAT)

Income and expenditure excludes any amounts relating to VAT except to the extent that it is irrecoverable.

# 2 Transition to IFRS

The statement of accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10

The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

## Short-term accumulating compensated absences

Short-term accumulating compensated absences refers to benefits that employees receive as part of the contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the Council is required to accrue for any annual leave earned but not taken at 31st March each year. Under the previous accounting arrangements, no such accrual is required.

The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009/10 financial statements:

**Opening 1st April 2009 Balance Sheet**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Creditors | (110,123) | (11,318) |
| Accumulated Absences Account | 0 | 11,318 |

**31st March 2010 Balance Sheet**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Creditors | (99,589) | (12,933) |
| Accumulated Absences Account | 0 | 12,933 |

**2009/10 Comprehensive Income and Expenditure Statement**
**Cost of Services (Net)**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Cultural, Environmental, Regulatory and Planning Services | 63,060 | 12 |
| Children's and Education Services | 136,351 | 1,557 |
| Highways and Transport Services | 101,141 | 7 |
| Court Services (Coroner's Court) | 983 | 0 |
| Adult Social Care | 194,652 | 34 |
| Housing Services (primarily supporting people) | 1,434 | 1 |
| Corporate and Democratic Core | 3,394 | 0 |
| Non Distributed Costs | (5,046) | 4 |
| Central Services to the Public | 2,301 | 0 |
| Exceptional items not included in costs of specific services | 816 | 0 |

# Leases

Under the Code, leases of property are accounted for as separate leases of land and buildings. Previously each property lease would have been accounted for as a single lease. The change in accounting treatment can result in the land and buildings element of the lease being accounted for as an operating lease where it was previously treated as a finance lease; or as a finance lease where it was previously treated as an operating lease.

The Council has 19 property leases where the accounting treatment has changed following the introduction of the Code. The land elements of these leases were previously classified as a finance lease but under the Code are now classified as operating leases.

As a consequence of classifying the land elements as operating leases, the financial statements have been amended to remove the land element of the assets.

**Opening 1st April 2009 Balance Sheet**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Property, Plant and Equipment | 1,425,734 | (834) |
| Revaluation Reserve | (112,424) | 75 |
| Capital Adjustment Account | (412,179) | 759 |

**31st March 2010 Balance Sheet**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Property, Plant and Equipment | 1,429,116 | 90 |
| Revaluation Reserve | (112,424) | 7 |
| Capital Adjustment Account | (377,160) | (97) |

**2009/10 Comprehensive Income and Expenditure Statement**
**Cost of Services (Net)**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Cultural, Environmental, Regulatory and Planning Services | 63,060 | |
| Children's and Education Services | 136,351 | (6) |
| Highways and Transport Services | 101,141 | |
| Court Services (Coroner's Court) | 983 | |
| Adult Social Care | 194,652 | (91) |
| Housing Services (primarily supporting people) | 1,434 | |
| Corporate and Democratic Core | 3,394 | |
| Non Distributed Costs | (5,046) | |
| Central Services to the Public | 2,301 | |
| Exceptional items not included in costs of specific services | 816 | |

# Government Grants – Capital

Under the Code, grants and contributions for capital schemes are recognised as income when any conditions relating to them are fully met. Previously, grants that had been spent were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund. Unspent grants were previously held in Government Grants unapplied, under the Code grants can only be accounted for as unapplied when any conditions have been met. Grants with unmet conditions are now accounted for as Capital Grants Receipts in Advance.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31st March 2009 has been transferred to the Capital Adjustments Account in the opening 1st April 2009 balance sheet;
- All transactions relating to Government Grants deferred previously in 2009/10 have been removed;
- Government grants unapplied where conditions have not been met have been transferred to Capital Grants Receipts in Advance;

**Opening 1st April 2009 Balance Sheet**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Government Grants Deferred | (259,418) | 259,418 |
| Government Grants unapplied | (24,274) | 20,927 |
| Capital Grants Receipts in Advance | 0 | (20,927) |
| Capital Adjustment Account | (412,179) | (259,418) |

**31st March 2010 Balance Sheet**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Government Grants Deferred | (296,414) | 296,414 |
| Government Grants unapplied | (36,786) | 29,034 |
| Capital Grants Receipts in Advance | 0 | (29,034) |
| Capital Adjustment Account | (377,160) | (296,414) |

**2009/10 Comprehensive Income and Expenditure Statement**
**Cost of Services (Net)**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Cultural, Environmental, Regulatory and Planning Services | 63,060 | 808 |
| Children's and Education Services | 136,351 | 18,723 |
| Highways and Transport Services | 101,141 | 3,913 |
| Court Services (Coroner's Court) | 983 | |
| Adult Social Care | 194,652 | 433 |
| Housing Services (primarily supporting people) | 1,434 | 6 |
| Corporate and Democratic Core | 3,394 | 0 |
| Non Distributed Costs | (5,046) | 0 |
| Central Services to the Public | 2,301 | 28 |
| Exceptional items not included in costs of specific services | 816 | 0 |
| **Deficit on Provision of Services** | | |
| Taxation and Non-specific Grant Income | 0 | (65,330) |

# Government Grants – Revenue

Under the Code, grants and contributions for specific revenue purposes are recognised as income in full when any conditions relating to them are met. Previously, specific revenue grants were matched to expenditure with any unspent element being accrued as income in advance.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended to remove creditor balances where conditions do not remain unmet and create creditor balances where they do.

**Opening 1st April 2009 Balance Sheet**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Creditors | (110,123) | 3,132 |
| Working Balance | (14,239) | (3,132) |

**31st March 2010 Balance Sheet**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Creditors | (99,589) | 3,511 |
| Working Balance | (14,292) | (3,511) |

**2009/10 Comprehensive Income and Expenditure Statement**
**Cost of Services (Net)**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Cultural, Environmental, Regulatory and Planning Services | 63,060 | (595) |
| Children's and Education Services | 136,351 | (232) |
| Highways and Transport Services | 101,141 | 19 |
| Court Services (Coroner's Court) | 983 | (177) |
| Adult Social Care | 194,652 | 0 |
| Housing Services (primarily supporting people) | 1,434 | 606 |
| Corporate and Democratic Core | 3,394 | 0 |
| Non Distributed Costs | (5,046) | 0 |
| Central Services to the Public | 2,301 | 0 |
| Exceptional items not included in costs of specific services | 816 | 0 |

# Assets Held for Sale

The code requires assets that meet certain criteria to be classified as Assets Held for Sale and as Current Assets. Assets previously classified as held for disposal have been assessed, reclassified and revalued as appropriate.

**Opening 1st April 2009 Balance Sheet**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Property Plant and Equipment | 1,425,734 | 2,740 |
| Assets Held for Disposal | 14,530 | (14,530) |
| Assets Available for Sale | 0 | 1,640 |
| Revaluation Reserve | (151,803) | 4,760 |
| Capital Adjustment Account | (412,179) | 5,390 |

**31st March 2010 Balance Sheet**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Property Plant and Equipment | 1,429,116 | 738 |
| Assets Held for Disposal | 6,249 | (6,249) |
| Assets Available for Sale | 0 | 1,790 |
| Revaluation Reserve | (112,424) | 832 |
| Capital Adjustment Account | (377,160) | 2,889 |

**2009/10 Comprehensive Income and Expenditure Statement**
**Cost of Services (Net)**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Cultural, Environmental, Regulatory and Planning Services | 63,060 | (816) |
| Children's and Education Services | 136,351 | (1,655) |
| Highways and Transport Services | 101,141 | (91) |
| Court Services (Coroner's Court) | 983 | 0 |
| Adult Social Care | 194,652 | 61 |
| Housing Services (primarily supporting people) | 1,434 | 0 |
| Corporate and Democratic Core | 3,394 | 0 |
| Non Distributed Costs | (5,046) | 0 |
| Central Services to the Public | 2,301 | 0 |
| Exceptional items not included in costs of specific services | 816 | 0 |

# Cash Equivalents

The Code introduces the concept of Cash Equivalents. Under the SORP, all investments were classified as either short-term or long-term investments. In order to comply with the Code an Accounting Policy has been adopted that defines investments with a term of 90 days or less or deposits on call as Cash Equivalents.

As a consequence of adopting the Accounting Policy, the accounting statements have been amended to move investments meeting the criteria to Cash and Bank.

**Opening 1st April 2009 Balance Sheet**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Cash and Bank | 6,158 | 42,800 |
| Debtors | 78,373 | 72 |
| Investments maturing less than 1 year | 187,432 | (42,872) |

**31st March 2010 Balance Sheet**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Cash and Bank | 7,434 | 67,625 |
| Debtors | 67,201 | 253 |
| Investments maturing less than 1 year | 123,421 | (67,878) |

# Short-term Provisions

The Code requires Provisions to be analysed between current and long-term. As a consequence of adopting the Accounting Policy, the accounting statements have been amended as follows.

**Opening 1st April 2009 Balance Sheet**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Provisions (current liability) | 0 | (14,755) |
| Provisions | (22,739) | 14,755 |

**31st March 2010 Balance Sheet**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Provisions (current liability) | 0 | (8,516) |
| Provisions | (18,570) | 8,516 |

# Voluntary Controlled (VC) Schools

Since 2008/09 VC schools have not been included as Fixed Assets within the authority's accounts as they are church owned. Although not directly related to the transition to IFRS the opportunity has been taken to review this Policy and details included within this note for completeness. As the authority controls the running of the school it is considered more appropriate for these Assets to be included within the authority's accounts. The accounts have been amended as follows:

**Opening 1st April 2009 Balance Sheet**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Property Plant and Equipment | 1,425,734 | 80,499 |
| Revaluation Reserve | (151,803) | (18,894) |
| Capital Adjustment Account | (412,179) | (61,605) |

**31st March 2010 Balance Sheet**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Property Plant and Equipment | 1,429,116 | 77,420 |
| Revaluation Reserve | (112,424) | (16,710) |
| Capital Adjustment Account | (377,160) | (60,710) |

**2009/10 Comprehensive Income and Expenditure Statement**
**Cost of Services (Net)**

| | 2009/10 Statements £000 | Adjustments Made £000 |
|---|---|---|
| Cultural, Environmental, Regulatory and Planning Services | 63,060 | 0 |
| Children's and Education Services | 136,351 | (165) |
| Highways and Transport Services | 101,141 | 0 |
| Court Services (Coroner's Court) | 983 | 0 |
| Adult Social Care | 194,652 | 0 |
| Housing Services (primarily supporting people) | 1,434 | 0 |
| Corporate and Democratic Core | 3,394 | 0 |
| Non Distributed Costs | (5,046) | 0 |
| Central Services to the Public | 2,301 | 0 |
| Exceptional items not included in costs of specific services | 816 | 0 |
| (Gain)/Loss on disposal of fixed assets | (605) | 1,404 |

# 3 Accounting Standards that have been issued but have not yet been adopted

## Heritage Assets

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) has introduced a change in accounting policy in relation to the treatment of heritage assets held by the authority, which will need to be adopted fully by the authority in the 2011/12 financial statements. The change will require heritage assets to be separately disclosed and carried at Market Value rather than Historic Cost as they are currently

The authority is required to disclose information relating to the impact of this 2011/12 change in accounting policy in a disclosure note to this year's financial statements.

Heritage assets are assets that are held by the authority principally for their contribution to knowledge or culture. The heritage assets held by the authority are:

- The Devon Record Office has held on indefinite loan for a number of years the family documents and estate papers of the Pine-Coffin family which has held land in North Devon for over 900 years. Sir Richard Coffyn received the manor of Alwington after the Norman Conquest. The collection is made up of five main deposits received by the Record Office between 1930 and this year. Amounting to 5,000 items, they consist of deeds dating from the 13th century, court rolls and other manorial documents and a variety of estate papers. The Council has now purchased the documents from the Pine-Coffin family and they are included within the Balance Sheet (see Note 16) at £43,000.
- The authority has been gifted a number of artefacts from twinning associations, items such as a Totem Pole. None of the items has significant value.
- The authority owns six steam rollers and one diesel roller that are on permanent long term loan to Trustees. The value of these assets is not material.

# 4 Critical judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1 the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- These accounts have been prepared on a going concern basis. The concept of a going concern assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. Although Central Government funding will be cut significantly in 2011/12 and future years this will have no effect on Devon County Council being a going concern;
- Note 19 Financial Instruments details the authority's Investment Strategy and approach to managing risk. None of the authority's investments are impaired;
- The authority has relationships with several Companies, details are provided in note 39. The authority's interests have been assessed and judged to be associates and jointly controlled entities. Group Accounts have not been prepared on the grounds of materiality; and
- The authority's significant contracts have been reviewed and no embedded finance leases or service concessions found. The authority has one Private Finance Initiative contract for the provision of schools, note 41 provides details.

# 5 Assumptions made about the future and other major sources of estimation uncertainty

The Statements of Accounts contains estimated figures that are based on assumptions made by the authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the authority's Balance Sheet at 31st March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| **Item** | **Uncertainties** | **Effect if actual results differ from assumptions** |
|---|---|---|
| Property, Plant and Equipment | Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. | If the useful life of assets is reduced, depreciation charges increase and the carrying amount of the assets fall. It is estimated that the annual depreciation charge for buildings would increase by £2.2m for every year that useful lives had to be reduced. |
| Provisions | The authority has made a provision of £11.86m in relation to self insurance liabilities and £2.117m in relation to the corporate restructure. These provisions are estimates of the potential liability and the final costs may be more or less. | The difference between the amounts provided for and the final costs will be charged or credited to the cost of services when they are incurred. |
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham, a firm of consulting Actuaries is engaged to provide the authority with expert advice about the assumptions to be applied. | The effects of the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £143m. However, the assumptions interact in complex ways. During 2010/11, the authority's actuaries advised that due to estimates being corrected (as a result of experience) the net pensions liability had decreased by £46.776m and decreased by £221.075m due to updating of the assumptions. |
| Debtors | At 31st March 2011, the authority had a balance of sundry debtors of £79m. A review of significant balances suggested that an impairment of doubtful debts of £4m was appropriate. However, in the current economic climate it is not certain that such an allowance will be sufficient. | If collection rates were to deteriorate, every 1% deterioration would require an additional impairment provision of £0.8m. |

# 6 Material items of Income and Expenditure

The following material item is included within the Comprehensive Income and Expenditure Account:

- £83m of non current assets have been written off on disposal or sale and are recognised within Other Operating Expenditure as a loss on disposal of £80m. The loss has arisen due to a number of school buildings being leased to new Academy schools and the demolition of old school buildings that have been replaced by new constructions.

# 7 Exceptional item

**Equal Pay**

Amounts in relation to Equal Pay have in previous years been shown as Exceptional items; although the sums now reported are not material they are included here for completeness. A credit of £0.9m is included as an Exceptional Item in respect of the balance of the Equal Pay Provision no longer required. A provision of £2.7m remains to cover outstanding tax and pension liabilities attributable to the compensation element of awards from May 2008. Note 20 contains more information on Provisions.

**Pension Scheme**

In its 2010 budget, the Government announced that, in future, the pension increase order applied to public service pension schemes' pensions in payment will be linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). The Council's actuary, Barnett Waddingham has adjusted the assumptions used to calculate the Pension Fund Liability in relation to future levels of pension increase. A past service gain of £131m is included as an Exceptional Item. Note 45 provides more pension information.

**Corporate Restructure**

In October 2010 the Government published its Comprehensive Spending Review that set out its spending plans for the next four years. In real terms Central Government support for local authority spending is due to contract by 28%. As a consequence of the cuts the authority has commenced a restructure that has resulted in severance costs being incurred or provided for. £4.7 million is included as an exceptional item. Note 44 provides more Termination Benefit information.

# 8 Events after the Balance Sheet Date

**Academy Schools**

On 1st April 2011 the following schools became Academies:

- Ashburton Primary School;
- Buckfastleigh Primary School;
- South Dartmoor Community College;
- Widecombe-in-the-Moor Primary;
- Clyst Vale Community College;
- Exmouth Community College;
- Queen Elizabeth's Community College;
- Yealmpton Primary School; and
- The King's School.

Academies are independent and Devon County Council has ceased to be the maintaining authority from this date. All running costs and income relating to these schools will no longer be part of the Council's accounts and it is estimated that the Council's Gross Expenditure and Income will reduce by £38.1m.

Devon County Council will continue to own the school land and buildings with the exception of South Dartmoor Community College and will grant a 125 year lease to the Academies to occupy the site. As the Building element of the lease meets the definition of a finance lease the buildings will no longer be included within the Council's Balance Sheet. The Net Book Value of the Buildings at 31st March 2011 was £58.8m. South Dartmoor Community College became a Trust on 1st September 2007 and the buildings transferred to the Trust at that time, the buildings have now transferred from the Trust to the Academy.

Equipment with a Net Book Value of £0.7m has also transferred to the Academy schools.

**Devon Cleaning and Catering Services (DCCS)**

On the 23rd May 2011 an agreement was signed for the transfer on 1st June of cleaning and caretaking services to Devon Norse Ltd and catering services on 1st September. The Council has a 20% equity holding in the Company and has representation on the Board.

DCCS staff will transfer to Devon Norse under TUPE arrangements. The Council has agreed to bear the liability of any redundancy costs arising from restructuring for a period of eight months from the date of transfer.

The pension costs of employees transferred to Devon Norse is via a 'pass through' process. This results in the Council retaining the pension liabilities and hence retaining the risk. Devon Norse will make contributions to the Pension Fund at the rate specified by the Council's Actuary but will not account for any pension deficit.

Eleven vehicles that the Council leases will transfer to Devon Norse, the Council will recharge the cost of the lease payments to Devon Norse for the remaining term. One vehicle that the Council owns will also transfer to Devon Norse, the asset is not included within the Council's Balance Sheet as it has a nominal value.

# 9 Adjustments between accounting basis and funding basis under regulations

The total comprehensive income and expenditure recognised by the authority in the year is in accordance with proper accounting practice. This note details the adjustments to comprehensive income and expenditure that are required by Statute.

| 2010/11 | General Fund £000 | Capital grants Unapplied £000 | Capital Receipts Reserve £000 | Movement in Unusable Reserves £000 |
|---|---|---|---|---|
| **Adjustments involving the Capital Adjustment Account:** | | | | |
| **Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | |
| Charges for depreciation and impairment of non current assets | 108,876 | | | (108,876) |
| Revaluation losses on Property Plant and Equipment | (12,218) | | | 12,218 |
| Amortisation of intangible assets | 182 | | | (182) |
| Capital grants and contributions | (60,597) | 60,597 | | |
| Revenue expenditure funded from capital under statute | 14,071 | | | (14,071) |
| Amounts of non current assets written off on disposal or sale, as part of the gain/loss on disposal | 83,419 | | | (83,419) |
| (surplus)/Deficit on revaluation of avaliable for sale financial assests | (102) | | | 102 |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | |
| Statutory provision for the financing of capital investment | (28,651) | | | 28,651 |
| Capital Expenditure charged to the General Fund Balance | (2,555) | | | 2,555 |
| **Adjustments involving the Capital Receipts Reserve:** | | | | |
| Transfer of sale proceeds credited as part of the gain/loss on disposal | (3,526) | | 3,526 | |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | | (10,685) | 10,685 |
| **Adjustments involving the Capital Grants Unapplied Reserve:** | | | | |
| Use of the Capital Grants Unapplied Reserve to finance new capital expenditure | | (60,762) | | 60,762 |
| **Adjustments involving the Pensions Reserve:** | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 45) | (58,046) | | | 58,046 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | (45,339) | | | 45,339 |
| Actuarial (Gains) and Losses on pension fund assets and liabilities | (267,851) | | | 267,851 |
| **Adjustments involving the Collection Fund Adjustment Account:** | | | | |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | (1,292) | | | 1,292 |
| **Adjustments involving the Financial Instruments Adjustment Account:** | | | | |
| Difference between amounts debited/creditied to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statutory provisions relating to soft loans, stepped interest rate borrowing and preimiums on the early repayment of debt. | (770) | | | 770 |
| **Adjustments involving the Unequal Pay Back Pay Adjustment Account:** | | | | |
| Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements | (1,864) | | | 1,864 |
| **Adjustment involving the Accumulating Compensated Absences Adjustment Account:** | | | | |
| Amount by which officer remuneration charged to the Comprehensive Expenditure and Income Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (2,002) | | | 2,002 |
| **Total Adjustments** | **(278,265)** | **(165)** | **(7,159)** | **285,589** |

| 2009/10 | General Fund £000 | Capital grants Unapplied £000 | Capital Receipts Reserve £000 | Movement in Unusable Reserves £000 |
|---|---|---|---|---|
| **Adjustments involving the Capital Adjustment Account:** | | | | |
| **Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | |
| Charges for depreciation and impairment of non current assets | 73,535 | | | (73,535) |
| Revaluation losses on Property Plant and Equipment | 41,496 | | | (41,496) |
| Amortisation of intangible assets | 25 | | | (25) |
| Capital grants and contributions | (65,330) | 65,330 | | |
| Revenue expenditure funded from capital under statute | 13,890 | | | (13,890) |
| Amounts of non current assets written off on disposal or sale, as part of the gain/loss on disposal | 3,083 | | | (3,083) |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | |
| Statutory provision for the financing of capital investment | (26,766) | | | 26,766 |
| Capital Expenditure charged to the General Fund Balance | (3,163) | | | 3,163 |
| **Adjustments involving the Capital Receipts Reserve:** | | | | |
| Transfer of sale proceeds credited as part of the gain/loss on disposal | (2,292) | | 2,292 | |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | | (7,213) | 7,213 |
| **Adjustments involving the Capital Grants Unapplied Reserve:** | | | | |
| Use of the Capital Grants Unapplied Reserve to finance new capital expenditure | | (60,925) | | 60,925 |
| **Adjustments involving the Pensions Reserve:** | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 45) | 72,765 | | | (72,765) |
| Employer's pensions contributions and direct payments to pensioners payable in the year | (47,183) | | | 47,183 |
| Actuarial (Gains) and Losses on pension fund assets and liabilities | 277,923 | | | (277,923) |
| **Adjustments involving the Collection Fund Adjustment Account:** | | | | |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | 428 | | | (428) |
| **Adjustments involving the Financial Instruments Adjustment Account:** | | | | |
| Difference between amounts debited/creditied to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statutory provisions relating to soft loans, stepped interest rate borrowing and preimiums on the early repayment of debt. | (1,302) | | | 1,302 |
| **Adjustments involving the Unequal Pay Back Pay Adjustment Account:** | | | | |
| Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements | (5,220) | | | 5,220 |
| **Adjustment involving the Accumulating Compensated Absences Adjustment Account:** | | | | |
| Amount by which officer remuneration charged to the Comprehensive Expenditure and Income Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 1,615 | | | (1,615) |
| **Total Adjustments** | **333,504** | **4,405** | **(4,921)** | **(332,988)** |

# 10 Transfers to/(from) Earmarked Reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet expenditure in 2010/11.

| | **Balance at 1st April 2009** | Transfers out 2009/10 | Transfers in/within 2009/10 | **Balance at 31st March 2010** | Transfers out 2010/11 | Transfers in/within 2010/11 | **Balance at 31st March 2011** |
|---|---|---|---|---|---|---|---|
| | **£000** | £000 | £000 | **£000** | £000 | £000 | **£000** |
| Affordable Housing | 1,229 | (157) | | 1,072 | (387) | | 685 |
| Blighted Properties | 200 | | | 200 | | | 200 |
| Building Maintenance | 434 | (18) | 411 | 827 | (163) | | 664 |
| Customer Access Strategy | 416 | (264) | 37 | 189 | (189) | | 0 |
| Development Fund | 2,150 | | (1,640) | 510 | | | 510 |
| Devon Cleaning & Catering | 847 | (561) | | 286 | (151) | | 135 |
| Emergency | 102 | (25) | (77) | 0 | | | 0 |
| Energy & Water Efficiency | 60 | 4 | | 64 | | | 64 |
| Energy Conservation | 200 | | (200) | 0 | | | 0 |
| European Matched Funding | 511 | 258 | 350 | 1,119 | (47) | 350 | 1,422 |
| Extra Care Housing | 8,964 | (100) | (2,435) | 6,429 | | 1,647 | 8,076 |
| Financing Fund | 439 | (1,474) | 1,035 | 0 | | | 0 |
| General | 0 | | | 0 | | 14,012 | 14,012 |
| Inspection / Implementation | 78 | | (78) | 0 | | | 0 |
| Insurance | 4,000 | (142) | (2,000) | 1,858 | (868) | | 990 |
| Integrated Youth Support | 100 | (19) | | 81 | (10) | (71) | 0 |
| Invest to Save | 1,292 | (286) | (120) | 886 | (400) | (486) | 0 |
| Lets Get Devon Moving | 0 | (257) | 500 | 243 | (158) | | 85 |
| Local Authority Business Grant | 3,418 | (876) | 343 | 2,885 | (490) | | 2,395 |
| Local Initiatives | 128 | (35) | 341 | 434 | (266) | | 168 |
| LPSA1 Reward | 819 | (197) | (622) | 0 | | | 0 |
| LPSA2 Reward | 3,873 | (1,106) | 2,955 | 5,722 | (2,734) | | 2,988 |
| Modernisation Fund | 2,408 | (1,584) | 2,550 | 3,374 | (849) | 197 | 2,722 |
| New Road & Street Works Act Fund | 439 | (20) | | 419 | | | 419 |
| On Street Parking | 1,129 | (67) | (168) | 894 | | 390 | 1,284 |
| PFI Sinking Fund | 1,499 | (933) | | 566 | | 1,815 | 2,381 |
| Prior Year Tax | 100 | | (100) | 0 | | | 0 |
| Procurement Initiative | 216 | (56) | (9) | 151 | (83) | | 68 |
| Redundancy | 3,691 | (1,112) | 1,000 | 3,579 | (4,503) | 3,531 | 2,607 |
| Reinstatement of Existing Landfill Sites | 479 | 1 | (215) | 265 | (207) | | 58 |
| Roads Emergency | 0 | | 651 | 651 | | 1,000 | 1,651 |
| Service Development | 6,500 | (411) | (1,922) | 4,167 | (1,195) | | 2,972 |
| Systems Development Fund | 136 | (22) | | 114 | | 141 | 255 |
| Trading Accounts | 2 | | (2) | 0 | | | 0 |
| Waste Management Fund | 2,036 | (305) | (394) | 1,337 | (499) | | 838 |
| **Total before Carry Forwards** | **47,895** | **(9,764)** | **191** | **38,322** | **(13,199)** | **22,526** | **47,649** |
| Directorate Budget Carry Forwards | 2,950 | (2,950) | 3,284 | 3,284 | (3,284) | 24,720 | 24,720 |
| **Total excluding schools** | **50,845** | (12,714) | 3,475 | **41,606** | (16,483) | 47,246 | **72,369** |
| School Carry Forwards (included within General Fund Balance) See Note 11 | 12,559 | (12,559) | 12,088 | 12,088 | (12,088) | 14,844 | 14,844 |

At the Cabinet meeting held on 8th June 2011, it was resolved that £300,000 of the General Reserve be allocated to County Committees.

# 11 General Fund Balance

| 1st April 2009 | 31st March 2010 | | 31st March 2011 |
|---|---|---|---|
| 12,559 | 12,088 | Schools Carry Forwards | 14,844 |
| 17,371 | 17,803 | Non Schools working balance | 14,390 |
| **29,930** | **29,891** | Total General Fund Balance | **29,234** |

# 12 Other Operating Expenditure

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| 817 | (Gains)/losses on the disposal of non current assets | 79,893 |
| 580 | Levies | 591 |
| **1,397** | | **80,484** |

# 13 Financing and Investment Income and Expenditure

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| 34,941 | Interest payable and similar charges | 33,241 |
| 47,339 | Pensions interest cost and expected return on pensions | 26,636 |
| (3,488) | Interest receivable and similar income | (1,926) |
| 477 | Trading Account Deficit | 1,283 |
| **79,269** | | **59,234** |

# 14 Taxation and Non Specific Grant Income

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| (316,161) | Council tax income | (324,721) |
| (124,307) | Non domestic rates | (140,696) |
| (72,975) | Non-ringfenced government grants | (77,009) |
| (65,330) | Capital grants and contributions | (60,597) |
| **(578,773)** | | **(603,023)** |

# 15 Authorised for Issue

Mary Davis the County Treasurer has authorised the 2010/11 Statement of Accounts for issue on 29th June 2011. Events after the balance sheet date have been considered up to the 29th June 2011.

# 16 Property Plant and Equipment

**Movements in 2010/11:**

| | Other Land and Buildings £000 | Vehicles, Plant, Furniture & Equipment £000 | Infrastructure Assets £000 | Heritage Assets £000 | Surplus Assets £000 | Assets Under Construction £000 | **Total Property, Plant and Equipment £000** | PFI Assets included in Property, Plant and Equipment £000 |
|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | |
| At 1st April 2010 | 1,066,006 | 67,528 | 485,141 | 0 | 0 | 70,876 | **1,689,551** | 67,632 |
| Additions | 35,755 | 12,559 | 56,464 | 43 | 9 | 24,216 | **129,046** | 35 |
| Donations | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 0 |
| Revaluation increases/(decreases) recognsied in the Revaluation Reserve | (3,609) | 0 | 0 | 0 | 364 | 0 | **(3,245)** | 849 |
| Revaluation increases/(decreases) recognsied in the Surplus/Deficit on the provision of Services | (36,222) | 0 | 0 | 0 | (162) | 0 | **(36,384)** | 0 |
| Derecognition - Disposals | (1,141) | 0 | 0 | 0 | 0 | 0 | **(1,141)** | 0 |
| Derecognition - Other | (70,068) | (1,403) | 0 | 0 | 0 | (206) | **(71,677)** | (14,589) |
| Assets reclassified (to)/from Held for Sale | (14,493) | 0 | 0 | 0 | 206 | (495) | **(14,782)** | 0 |
| Other movements in cost or valuation | 37,807 | 84 | 5,726 | 0 | 658 | (51,239) | **(6,964)** | 0 |
| **At 31st March 2011** | **1,014,035** | **78,768** | **547,331** | **43** | **1,075** | **43,152** | **1,684,404** | **53,927** |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| 1st April 2010 | (8,410) | (39,825) | (140,948) | 0 | 0 | 0 | **(189,183)** | 0 |
| Depreciation Charge | (28,013) | (9,002) | (41,644) | 0 | (1) | 0 | **(78,660)** | (2,215) |
| Depreciation written out to the Revaluation Reserve | 15,463 | 0 | 0 | 0 | 0 | 0 | **15,463** | 1,477 |
| Depreciation written out to the Surplus/Deficit on the provision of services | 6,162 | 0 | 0 | 0 | 5 | 0 | **6,167** | 0 |
| Impairment losses/(reversals) recognised in the Revaluation Reserve | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 0 |
| Impairment losses/(reversals) recognised in the surplus/deficit on the provision of services | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 0 |
| Derecognition - Disposals | 21 | 0 | 0 | 0 | 0 | 0 | **21** | 0 |
| Derecogntion - Other | 394 | 38 | 0 | 0 | 0 | 0 | **432** | 0 |
| Other movements in depreciation and impairment | 410 | 0 | 0 | 0 | (8) | 0 | **402** | 0 |
| **At 31st March 2011** | **(13,973)** | **(48,789)** | **(182,592)** | **0** | **(4)** | **0** | **(245,358)** | **(738)** |
| **Net Book Value** | | | | | | | | |
| **At 31st March 2011** | **1,000,062** | **29,979** | **364,739** | **43** | **1,071** | **43,152** | **1,439,046** | **53,189** |
| **At 31st March 2010** | **1,057,596** | **27,703** | **344,193** | **0** | **0** | **70,876** | **1,500,368** | **67,632** |

**Comparative Movements in 2009/10:**

| | Other Land and Buildings £000 | Vehicles, Plant, Furniture & Equipment £000 | Infrastructure Assets £000 | Heritage Assets £000 | Surplus Assets £000 | Assets Under Construction £000 | **Total Property, Plant and Equipment £000** | PFI Assets included in Property, Plant and Equipment £000 |
|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | |
| At 1st April 2009 | 1,095,155 | 55,772 | 429,251 | 0 | 0 | 56,482 | **1,636,660** | 74,639 |
| Additions | 31,568 | 10,609 | 45,647 | 0 | 0 | 37,266 | **125,090** | 10 |
| Donations | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 0 |
| Revaluation increases/(decreases) recognsied in the Revaluation Reserve | (37,722) | 0 | 0 | 0 | 0 | 0 | **(37,722)** | (7,017) |
| Revaluation increases/(decreases) recognsied in the Surplus/Deficit on the provision of Services | (26,823) | 0 | 0 | 0 | 0 | 0 | **(26,823)** | 0 |
| Derecognition - Disposals | (840) | 0 | 0 | 0 | 0 | (1) | **(841)** | 0 |
| Derecognition - Other | (4,818) | 0 | 0 | 0 | 0 | (1,932) | **(6,750)** | 0 |
| Assets reclassified (to)/from Held for Sale | (491) | 0 | 0 | 0 | 0 | 134 | **(357)** | 0 |
| Other movements in cost or valuation | 9,977 | 1,147 | 10,243 | 0 | 0 | (21,073) | **294** | 0 |
| **At 31st March 2010** | **1,066,006** | **67,528** | **485,141** | **0** | **0** | **70,876** | **1,689,551** | **67,632** |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| 1st April 2009 | (4,887) | (30,876) | (107,201) | 0 | 0 | | **(142,964)** | (1,281) |
| Depreciation Charge | (14,613) | (7,282) | (29,353) | 0 | 0 | 0 | **(51,248)** | (1,281) |
| Depreciation written out to the Revaluation Reserve | 8,462 | 0 | 0 | 0 | 0 | 0 | **8,462** | 2,562 |
| Depreciation written out to the Surplus/Deficit on the provision of services | 2,359 | 0 | 0 | 0 | 0 | 0 | **2,359** | 0 |
| Impairment losses/(reversals) recognised in the Revaluation Reserve | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 0 |
| Impairment losses/(reversals) recognised in the surplus/deficit on the provision of services | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 0 |
| Derecognition - Disposals | 2 | 0 | 0 | 0 | 0 | 0 | **2** | 0 |
| Derecogntion - Other | 58 | 0 | 0 | 0 | 0 | 0 | **58** | 0 |
| Sale | 206 | 0 | 0 | 0 | 0 | 0 | **206** | 0 |
| Other movements in depreciation and impairment | 3 | (1,667) | (4,394) | | | | **(6,058)** | 0 |
| **At 31st March 2010** | **(8,410)** | **(39,825)** | **(140,948)** | **0** | **0** | **0** | **(189,183)** | **0** |
| **Net Book Value** | | | | | | | | |
| **1st April 2009** | **1,090,268** | **24,896** | **322,050** | **0** | **0** | **56,482** | **1,493,696** | **73,358** |
| **31st March 2010** | **1,057,596** | **27,703** | **344,193** | **0** | **0** | **70,876** | **1,500,368** | **67,632** |

## Depreciation

The following useful lives have been used in the calculation of depreciation:

| Asset Type | Estimated Useful Life |
|---|---|
| Care Homes | 50 to 60 Years |
| Education – Non Schools | 30 to 60 Years |
| Education – Schools | 10 to 60 Years |
| Farm Buildings | 50 to 60 Years |
| Farm Land | Indefinite |
| Highways Depots | 50 Years |
| Infrastructure | 10 to 40 Years |
| Intangible Assets | 3 to 5 Years |
| Libraries | 30 to 60 Years |
| Offices | 50 to 60 Years |
| Vehicles, Plant, Furniture & | 3 to 15 Years |
| Social Services | 50 to 60 Years |
| Waste Disposal | 50 Years |

## Capital Commitments

This statement contains details of major capital contracts with significant commitment costs flowing into future financial years.

| Contract Name | Project Purpose | 2011/12 (£000) | 2012/13 (£000) | 2013/14 (£000) | Total Commitment 2011/12 Onwards (£000) |
|---|---|---|---|---|---|
| Barnstaple Roundswell | Co-Location Building | 3,822 | 73 | 0 | 3,895 |
| Bideford Cantilever Walkway Strengthening | Strengthen The Bridge And Extend Its Life | 540 | 27 | 0 | 567 |
| Bideford College | New Community College | 3,341 | 13 | 0 | 3,354 |
| Chulmleigh | New Youth Centre | 318 | 6 | 0 | 324 |
| Cullompton Library | New Community Hub & Library | 1,430 | 27 | 0 | 1,457 |
| East Of Exeter M5 J29 Including Science Park | Improve & Widen Junctions In The Vicinity Of The Science Park | 5,027 | 2,513 | 115 | 7,655 |
| Exe Estuary Cockwood To Dawlish | Further Section Of Exe Estuary Trail | 409 | 6 | 0 | 415 |
| Exeter Montgomery Combined | Replacement School | 4,771 | 124 | 0 | 4,896 |
| Gem Bridge - River Walkham Crossing | Create Cycle/Walk Way | 1,181 | 64 | 0 | 1,245 |
| Kingsteignton Teign School | Sports Hall | 1,146 | 21 | 0 | 1,166 |
| Legal Agreement Between DCC And High Bickington Community Partnership Trust | To Fund The DCC Part Of The Site Infrastructure | 432 | 165 | 0 | 597 |
| Pinbrook OPCO | Provision Of Recycling Centre | 928 | 15 | 0 | 943 |
| Redhayes Bridge | Complete Cycle & Pedestrian Bridge | 72 | 50 | 0 | 122 |
| Science Park Drive South | Create New Section Of Highway | 1,505 | 22 | 0 | 1,527 |
| Shaldon Primary | Phase 2 Extension | 365 | 20 | 0 | 385 |
| Sidmouth Stowford Rise | New Community Centre | 468 | 13 | 0 | 481 |
| Teignmouth Community College | Sports Hall | 1,786 | 32 | 0 | 1,818 |
| Wray Valley Trail Phase One | Create New Cycleway | 115 | 10 | 0 | 125 |
| | | **27,656** | **3,200** | **115** | **30,971** |

**Effects of Changes in Estimates**

In 2010/11, the Authority made one material change to its accounting estimates for Property, Plant and Equipment:

- Non current asset indices – Building Cost Information Services (BCIS) indices have been applied by the valuer to derive fixed asset components and their valuations.

In accordance with the Authority's accounting policy for componentisation only building assets within the schools portfolio have been componentised. The following standard components and asset lives have been determined:

| Component category | Percentage (%) | Asset Life (Years) |
|---|---|---|
| Sub & Super Structure | 55 | 60 |
| Services | 30 | 20 |
| Fittings | 5 | 10 |
| Finishes | 10 | 10 |

**Revaluations**

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. The valuations are carried out by our qualified external valuer, John Penaligon FRICS, NPS South West Ltd. The basis for valuation is set out in the Statement of Accounting Policies. All valuations were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The significant assumptions applied in estimating the fair values are:

**Planning**

It is assumed that all buildings and / or sites have either been constructed or are used in accordance with valid Town Planning Consents and Building Regulations Approval, and that they comply with all relevant statutory and any other requirements in connection with the property and its present use.

**De Minimis Assets**

In accordance with the Conditions of Engagement, valuations have not been carried out in cases where the Valuer considers that the value is less than £50,000 and it has been noted accordingly on the schedule of valuations, such properties having been entered at a nominal amount of £1.

**Valuation Assumptions**

That no high alumina cement concrete, calcium or chloride additive or any other deleterious material has been determined to be present in the buildings.

No regard has been taken of any possible contamination, and the effect of the Environment Protection Act 1990 and the Environment Act 1995, or any subsequent environment legalisation so far as it relates to any asset, as no information has been made available within the context of these valuations.

That the properties and their values are unaffected by any matters which would be revealed by a local search or inspection of a register and that the use and occupation is lawful.

**Tenure**

Title Deeds have not been inspected and freehold interests have been deemed unencumbered and free from unduly onerous or unusual restrictions or conditions materially affecting value.

**Taxation**

The valuations have not taken into account any liability for taxation which may arise upon disposal of any assets. Value Added Tax on construction costs has not been included in DRC valuations.

### Measurement Bases

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- Assets surplus to requirements – lower of net current replacement cost or net realisable value
- Other land and buildings, vehicles, plant and equipment – lower of net current replacement cost or net realisable value in existing use
- Infrastructure assets and community assets – depreciated historical cost

Net current replacement cost is assessed as:

- Non-specialised operational properties - existing value use (EUV)
- Specialised operational properties – depreciated replacement cost (DRC)
- Investment properties and surplus assets – market value (MV)

The effective date for all valuations will be 31 March 2011 for the financial year 2010/11.

| | Other Land and Buildings £000 | Vehicles, Plant, Furniture & Equipment £000 | Infrastructure Assets £000 | Heritage Assets £000 | Surplus Assets £000 | Assets Under construction £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| **Valued at Historical Cost:** | 216 | 78,768 | 547,331 | 43 | | 43,152 | 669,510 |
| **Valued at Current Value in:** | | | | | | | |
| 2010/11 | 636,521 | | | | 1,075 | | 637,596 |
| 2009/10 | 185,524 | | | | | | 185,524 |
| 2008/09 | 145,337 | | | | | | 145,337 |
| 2007/08 | 25,530 | | | | | | 25,530 |
| 2006/07 | 20,907 | | | | | | 20,907 |
| **Total** | **1,014,035** | **78,768** | **547,331** | **43** | **1,075** | **43,152** | **1,684,404** |

# 17 Intangible Assets

The Authority accounts for its software as Intangible Assets to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets are purchased licences only as the authority does not internally generate software.

All software is given a finite useful life, based on assessments of the period over which the software is expected to be of use to the Authority. The useful lives assigned to the major software suites used by the Authority range from 3 to 5 years.

The carrying amount of intangible assets is amortised on a straight-line basis

Intangible assets are to be carried on the balance sheet at revalued amounts, but only where fair value can be determined by reference to an active market. No revaluations have taken place during 2010/11.

The movement on Intangible Asset balances during the year is as follows:

| **2009/10 £000** | | **2010/11 £000** |
|---:|---|---:|
| | **Balance at start of year:** | |
| 82 | Gross carrying amounts | 687 |
| 0 | Accumulated amortisation | (25) |
| 82 | Net carrying amount at start of year | 662 |
| 519 | Additions (purchases) | 347 |
| 86 | Other changes | 0 |
| (25) | Amortisation for the period | (182) |
| **662** | **Net carrying amount at end of year** | **827** |
| | **Comprising:** | |
| 687 | Gross carrying amounts | 1,034 |
| (25) | Accumulated amortisation | (207) |

# 18 Long Term Debtors

| 1st April 2009 £000 | 31st March 2010 £000 | | 31st March 2011 £000 |
|---|---|---|---|
| 91 | 129 | Car Loans to Employees | 120 |
| 147 | 114 | Petroc | 98 |
| 867 | 929 | Exeter and Devon Airport (EDAL) | 996 |
| 0 | 0 | Skypark LLP | 325 |
| 4 | 1 | Foster Carer loans | 0 |
| 6 | 5 | Housing Advances | 4 |
| 4 | 4 | Industrial Loans | 4 |
| 346 | 0 | Morwellham Quay | 0 |
| 691 | 549 | Magistrates | 484 |
| 441 | 396 | PLUSS | 392 |
| 56,741 | 52,293 | Plymouth & Torbay Councils | 0 |
| 28,393 | 32,365 | Plymouth & Torbay Unfunded pensions | 29,253 |
| 278 | 314 | Probation | 289 |
| 50 | 0 | Sustrans | 0 |
| **88,059** | **87,099** | | **31,965** |

# 19 Financial Instruments

## 19.1 Financial instruments balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

| | **Long-Term** | | **Current** | |
|---|---|---|---|---|
| | 31/03/2010 | 31/03/2011 | 31/03/2010 | 31/03/2011 |
| | £000 | £000 | £000 | £000 |
| Financial liabilities at amortised cost | | | | |
| PWLB | 490,139 | 436,349 | 0 | 0 |
| Other Sources | 95,298 | 95,327 | 471 | 472 |
| **Total Borrowings** | **585,437** | **531,676** | **471** | **472** |
| | | | | |
| Loans and receivables | 5,000 | 0 | 55,471 | 65,630 |
| Cash flow investments (cash equivalents) | 0 | 0 | 67,625 | 48,550 |
| Available-for-sale financial assets | 61 | 247 | 0 | 0 |
| **Total Investments** | **5,061** | **247** | **123,096** | **114,180** |

PWLB loans are at a fixed rate of interest for the duration of the loan. No additional loans have been taken out during the year. During 2010/11 external debt (PWLB) totalling £53.8m was transferred to Plymouth City Council and Torbay Council. This debt was previously managed by Devon County Council on behalf of Plymouth and Torbay and relates to the statutory transfer of functions upon local government reorganisation in 1998. (Both Unitary Councils previously repaid a proportion of the principal outstanding and equivalent interest charges to Devon County Council on an annual basis).

Some of the borrowing from other sources is at stepped rates of interest whereby they typically start at a low rate and at a predetermined point the rate increases to an agreed higher rate. There have been no new loans of this type taken out this year.

The decrease in both Long Term Investments and Current Investments reflects the use of internal revenue monies for capital spend during 2010/11.

On 1st April 2007, the Council entered into a joint venture agreement with NPS South West Ltd - a company owned jointly by NPS Property Consultants Ltd and Devon County Council (80%:20%). The company has been set up to deliver property management services as specified in a provision of services agreement. The shareholding of two £1 shares has been independently valued at 31st March 2008 at a Fair Value of £247,000 (£61,000 in 2009/10) and included above as available for sale financial assets.

During 2010/11 the Council has made an equity investment of £83,600 in Exeter Science Park Ltd. The Council has a forty-nine percent interest. The Science Park Company operates under 'de minimis' State Aid regulations with the intention of promoting Exeter Science Park'. The Council's shareholding has been independently valued at 31st March 2011 at a Fair Value of £nil.

## 19.2 Financial instruments gains and losses

The gains and losses recognised in the Comprehensive Income and Expenditure account and the statement of recognised gains and losses in relation to financial instruments are made up as follows:

| **2010/11** | **Financial Liabilities** | **Financial Assets** | | |
|---|---|---|---|---|
| | Liabilities measured at amortised cost | Loans and receivables | Available-for sale assets | Total |
| | £000 | £000 | £000 | £000 |
| Interest expense - Note 13 | 33,241 | 0 | 0 | 0 |
| Losses on derecognition | 0 | 0 | 0 | 0 |
| Impairment losses | 0 | (1,212) | 0 | (1,212) |
| **Interest payable and similar charges** | **33,241** | **(1,212)** | **0** | **(1,212)** |
| Interest Income - Note 13 | 0 | (1,926) | 0 | (1,926) |
| Gains on derecognition | 0 | 0 | 0 | 0 |
| **Interest and investment income** | **0** | **(1,926)** | **0** | **(1,926)** |
| Gains on revaluation | 0 | 0 | (186) | (186) |
| Losses on revaluation | 0 | 0 | 84 | 84 |
| Loss on reclassification of Deferred Premiums | 0 | 0 | 0 | 0 |
| **Surplus arising on revaluation of financial assets** | **0** | **0** | **(102)** | **(102)** |
| **Net gain/(loss) for the year** | **33,241** | **(3,138)** | **(102)** | **(3,240)** |

| **2009/10** | **Financial Liabilities** | **Financial Assets** | | |
|---|---|---|---|---|
| | Liabilities measured at amortised cost | Loans and receivables | Available-for sale assets | Total |
| | £000 | £000 | £000 | £000 |
| Interest expense | 34,941 | 0 | 0 | 0 |
| Losses on derecognition | 0 | 0 | 0 | 0 |
| Impairment losses | 0 | 1,194 | 0 | 1,194 |
| **Interest payable and similar charges** | **34,941** | **1,194** | **0** | **1,194** |
| Interest Income | 0 | (3,488) | 0 | (3,488) |
| Gains on derecognition | 0 | 0 | 0 | 0 |
| **Interest and investment income** | **0** | **(3,488)** | **0** | **(3,488)** |
| Gains on revaluation | 0 | 0 | 0 | 0 |
| Losses on revaluation | 0 | 0 | 0 | 0 |
| Loss on reclassification of Deferred Premiums | 0 | 0 | 0 | 0 |
| **Surplus arising on revaluation of financial assets** | **0** | **0** | **0** | **0** |
| **Net gain/(loss) for the year** | **34,941** | **(2,293)** | **0** | **(2,293)** |

# 19.3 Fair value assets and liabilities carried at amortised cost

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. The fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- The Public Works Loans Board (PWLB) figures have been calculated by reference to the 'premature repayment' set of rates in force on 31st March 2011 and 2010.
- Loans from other sources and investments have been valued by reference to the set of interest rates in force on 31st March 2011 and 2010.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

| | **31st March 2010** | | **31st March 2011** | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | £000 | £000 | £000 | £000 |
| **Financial Liabilities** | | | | |
| PWLB | 490,139 | 543,176 | 436,349 | 498,987 |
| Other Loans | 95,298 | 112,214 | 95,327 | 111,470 |
| PFI Deferred liability | 60,393 | 60,393 | 58,204 | 58,204 |

The fair value of the loans is in both cases higher than the carrying amount. This is due to current loan rates being less than those available at the time the loans were taken out. This commitment to pay interest above current market rates increases the amount that the authority would have to pay if the lender agreed to early repayment of the loans.

| | 31st March 2010 | | 31st March 2011 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | £000 | £000 | £000 | £000 |
| **Loans and Receivables** | | | | |
| Long Term Investments | 5,000 | 5,026 | 0 | 0 |

No long term investments were held at 31 March 2011.

# 19.4 Disclosure of nature and extent of risks arising from financial instruments

The authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services.

Risk management is carried out by a central treasury team under policies approved for overall risk management as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

The County Council has adopted the CIPFA Code of Practice for Treasury Management in Public Services. The Treasury Management Policy Statement together with the Statement of Treasury Management Practices (TMPs) was formally adopted by the County Council on 14th February 2010. TMPs set out the manner in which the Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. The County Council will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in the TMPs.

# Investment Strategy 2010/11 – 2012/13

The Council will at all times invest its surplus funds prudently. Priority will be given to security and liquidity rather than yield. However, the highest available rate of interest consistent with the proper levels of security and liquidity will always be sought.

## Credit Ratings

Security is achieved by the creation of an 'Approved List of Counterparties'. These are the banks, building societies, money market funds and other public bodies with whom we are prepared to deposit funds. In preparing the list, a number of criteria will be used not only to determine who is on the list, but also to set limits as to how much money can be placed with them.

Banks are expected to have a high credit rating. The Council currently uses the ratings produced by the Fitch credit rating agency, and looks for a minimum short term rating of 'F1', and a long term rating of 'A'.

In order to meet the recommended practice set out in the new Treasury Management Code the County Council will adopt a new basis for judging the credit quality of Banks, UK Building Societies and other rated institutions. The ratings issued by all three of the major credit rating agencies, Fitch, Moody's and Standard & Poor's, are available to the Council (through its external Treasury Advisors – Butlers) and will be monitored daily. The lowest rating published by any of the agencies will be used to decide whether an institution is eligible for inclusion. This rating will also determine the maximum amount which can be loaned to an individual counterparty.

Money Market Funds must have an 'AAA' rating, but are not currently being used.

Other public sector bodies are principally arms of Government, or other local authorities and although not rated are deemed suitable counterparties because of their inherent low risk.

The 'Approved List of Counterparties' specifies individual institutions, and is formally reviewed at least monthly. In the current environment, this takes place on a daily basis. Notification of credit rating downgrades (or other market intelligence) is acted upon immediately, resulting in any further lending being suspended.

What follows is a summary of the 'Approved List', although as mentioned earlier, the current policy is not to use it to its full extent.

| **Counterparty Type** | | **Fitch** | **Moody's** | **Standard & Poor's** | **Credit Limit** |
|---|---|---|---|---|---|
| **Banks** | | | | | |
| UK Banks | not below | AA- & F1+ | Aa3 & P-1 | AA- & A-1 | £40million |
| | not below | A- & F1 | A3 & P-1 | A & A-1 | £25 million |
| **UK Building Societies** | | | | | |
| | not below | AA- & F1+ | Aa3 & P-1 | AA- & A-1 | £40million |
| | not below | A- & F1 | A3 & P-1 | A & A-1 | £25 million |
| **Public Bodies** | | | | | |
| **Central Government** | | | | | |
| – Debt Management Office | | | | | Unlimited |
| **Local Government** | | | | | |
| – County Councils | | | | | £10 million |
| – Metropolitan Authorities | | | | | £10 million |
| – London Boroughs | | | | | £10 million |
| – English Unitaries | | | | | £10 million |
| – Scottish Authorities | | | | | £10 million |
| – English Districts | | | | | £5 million |
| – Welsh Authorities | | | | | £5 million |
| **Fire & Police Authorities** | | | | | £5 million |
| **Money Market Funds** | | AAA | AAA | AAA | £25 million |

The crediting ratings shown in the table for UK banks and building societies allows for greater sensitivity in recognising counterparty risk. The flexibility to manage small changes in credit rating may require some existing counterparties investment limits to be reduced. A further consequence of this classification is that a small number of institutions may be added to the counterparty list.

## Liquidity of Investments

Liquidity in investments is the second key factor in determining our strategy. Funds may be earmarked for specific purposes or may be general balances, and this will be a consideration in determining the period over which the investment will be made.

The Council has a self-imposed limit of ensuring that at least 15% of deposits will be realisable within one month.

## Performance Targets

The primary targets of the Treasury Management Strategy are to minimise interest payments and maximise interest receipts over the long term whilst achieving annual budgets, without taking undue risk. Where there are comparative statistics available for individual aspects of the Strategy (e.g. the CIPFA Treasury Management Statistics) these will be used to monitor performance.

# Prudential Indicators

These indicators seek to reduce the risks associated with fixed and variable interest rate loans and with borrowing for different loan periods.

Borrowing at fixed rates of interest for long periods can give the opportunity to lock into low rates and provide stability but means that there is a risk of missing possible opportunities to borrow at even lower rates in the medium term.

Variable rate borrowing can be advantageous when rates are falling but also mean that there is a risk of volatility and a vulnerability to unexpected rate rises.

Borrowing for short periods or having large amounts of debt maturing (and having to be re-borrowed) in one year increases the risk of being forced to borrow when rates are high.

The Council's policy has been to borrow at fixed rates of interest when rates are considered attractive. This has worked well over recent years but the flexibility to adapt to changing interest rate environments must be retained.

The proposed Prudential Indicators for 2010/11 and beyond are set out in the table below:

| | Upper Limit % | Lower Limit % |
|---|---|---|
| Limits on borrowing at fixed interest rates | 100 | 70 |
| Limits on borrowing at variable interest rates | 30 | 0 |
| | | |
| Percentage of Fixed Rate Debt maturing in: | | |
| Under 12 months | 10 | 0 |
| 12 Months to within 24 months | 15 | 0 |
| 24 Months to within 5 years | 30 | 0 |
| 5 Years to within 10 years | 35 | 0 |
| 10 Years to within 20 years | 45 | 10 |
| 20 Years to within 30 years | 55 | 10 |
| 30 Years to within 40 years | 65 | 10 |
| 40 Years to within 50 years | 75 | 20 |

# Liquidity Risk

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available which are necessary for the achievement of its business and service objectives.

The daily cash flow is managed by officers in order to 'smooth' the flow of funds into and out of the Council, ensuring best returns on surplus funds, whilst minimising borrowing costs on days where there is a shortage. Borrowing and lending is generally undertaken in periods of under one month to ensure as far as is possible that on no one day should there be a requirement to have to fund shortages in excess of £1 million. Days when it is known that large outflows of money will take place e.g. payroll dates, are obvious dates to ensure there is sufficient liquidity.

Balances that are identified as not being for immediate use, say within the next few months may be invested for longer periods.

The maturity analysis of borrowing is as follows:

| | £000 |
|---|---|
| Less than one year | 472 |
| Between one and two years | 0 |
| Between two and five years | 20,000 |
| More than five years | 511,676 |
| | 532,148 |

All trade and other payables (£134.349m) are due to be paid in less than one year.

## Interest Rate Risk

The Council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or achieving its interest revenues, as set out in the Revenue Budget.

It will achieve these objectives by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

The level of exposure to Interest Rate Risk depends on the balance of fixed to variable monies. Here the risk is twofold. Being locked in to fixed funding when rates are falling, or failing to take advantage at a time when rates are perceived as low, or are forecast to rise; conversely, being locked into investments when rates are rising, and being unable to take advantage of this situation.

The Council has had, for a number of years, the policy of borrowing the fixed rate long-term element of its loans portfolio with loans from the Public Works Loan Board (PWLB) or the Money Market. This policy is reassessed annually as part of the adoption of the Treasury Policy Statement.

Interest Rate Risk is not increased by this policy as it is still possible to manage by switching existing loans from fixed to variable or vice versa, or re-scheduling existing debt, i.e. repaying existing debt, and re-borrowing over a shorter, or perhaps longer period. However, the existing arrangements operated by the Board of different rates for repaying loans as to those applied to new advances, mean that such changes are often uneconomic. Regard must always be had of the potential costs of any re-scheduling, as often they will attract a premium payable to the lender. This point is also referred to later under 'Re-financing Risk.'

Market Loans, usually in the form of Lender's Option Borrower's Option (LOBOs), offer an alternative to borrowing from the PWLB. Here money is borrowed for an initial period against the issue of a Bond, and gives the Lender the Option of varying the rate at the end of the period. If this Option is taken, the Council as Borrower can in turn agree to the new rate, or repay the loan without penalty. The flexibility offered by such loans can be a great help in managing this type of risk. The lender, who has the choice to (or not to) exercise the first option, has to be seen as having the greater control of the arrangement.

On the investment side, the use of Call Accounts, Notice Money, Money Market Funds, and Callable Deposits all introduce a degree of flexibility not offered by fixed term investments.

Movement in interest rates have a complex impact on the authority. For instance a rise in interest rates would have the following effects:

- Borrowing at fixed rate – the fair value of the borrowings will fall
- Investments at variable rate – the interest income credited to the income and expenditure account will rise
- Investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the income and expenditure account or the statement of total recognised gains and losses. However, changes in interest receivable on variable rate investments will be posted to the income and expenditure account and affect the general fund balance.

As the PFI Deferred Liability and most of the authority's loans and investments are fixed rate the impact of say a 1% increase in interest rates would have an impact only on variable rate investments by increasing interest receivable by £300,000 if the investments were held for a year.

The formula grant received from central government contains an element for funding debt charges but as the formula is now fixed for at least one year ahead so any changes in interest rate would have no effect in the short term.

The impact of a 1% fall in interest rates would be as above with the movements being reversed.

## Exchange Rate Risk

The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

It will achieve this objective by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of exchange rates. The above is subject at all times to the consideration and, if required, Council approval of any policy or budgetary implications.

The risk from fluctuating exchange rates is not material as far as the Council is concerned, as there is currently very little of either income or expenditure transacted in currencies other than Sterling.

## Inflation Risk

The effects of varying levels of inflation will be considered by the Council as an integral part of its strategy for managing its overall exposure to risk.

During the current period of low and stable inflation, there is little requirement for active consideration of its impact. The key objectives are that investments reap the highest real rate of return, with debt costing the lowest real cost. Should this change, projections of inflation will become part of the debt and investment decision-making criteria, both strategic and operational.

## Credit and Counterparty Risk

The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 'Approved Instruments, methods and techniques'. It also recognises the need to have, and maintain, a formal counterparty policy in respect of those organisations with whom it may enter into financing arrangements.

The County Council's arrangements have been formulated to restrict the exposure to risk by taking account of the credit standing of counterparties, and setting limits to different types of borrowers.

The credit ratings of all three major rating agencies (Fitch, Moody's and Standard & Poor's ) will be used to ensure that commercial institutions satisfy the requirements of the current policy. In essence the County looks for the highest rating from banks and sets lending limits against each one. Banks and UK Building Societies that do not attract these ratings are not considered at all. The actual ratings sought by the Council may be varied as part of the regular review of lending policy and counterparties.

Lending to other Local Authorities, and Public Bodies is allowed, with differing credit limits according to the type of institution.

The List of Approved Counterparties is kept under close review and is subject to amendment in the light of changes to credit ratings, takeovers and mergers, or changes to the type of institution.

Approved institutions are placed on the lending list, deposits may not be made to any institution, which does not conform to the requirements of the Lending List, nor is any transaction allowed to be entered into through any money broker not featuring on the approved list. The financial press and other sources are monitored with a view to discovering cases where an institution on the List is in any difficulty, financial or otherwise. If appropriate, any organisation will be immediately suspended from the list until such time that they demonstrate their creditworthiness. The decision to suspend a counterparty is made by the Investment Manager, and notified to other officers by the issue of a revised Approved List.

Funds available to the County for investment are substantial, and the current lending policies ensure a balance of there being no difficulty placing funds, whilst at the same time the credit risk is minimised.

The authority does not generally allow credit to customers, the amount owed to the authority can be analysed by age as follows:

**Credit Risk**

| | Amount at 31/03/11 | Historic experience of default | Historic experience adjusted for market conditions at 31/03/11 | Estimated maximum exposure to default and uncollectability |
|---|---|---|---|---|
| | £000 | % | % | £000 |
| Deposits with banks and financial institutions | 121,568 | 0 | 0.0311% | 38 |
| Bonds | 0 | 0 | 0 | 0 |
| Customers | 111,146 | 0.10% | 3.7381% | 4,155 |
| | | | | 4,193 |

| | £000 |
|---|---|
| Less than three months | 73,553 |
| Three to six months | 2,278 |
| Six months to one year | 7,505 |
| More than one year | 0 |
| | 83,336 |
| Provision for bad debts | (4,155) |
| Long Term Debtors not yet due | 31,965 |
| | 111,146 |

## Refinancing Risk

The Council will ensure that its borrowing arrangements are structured, and managed with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise its achievement.

External long term funding is arranged by the Treasury staff in accordance with the Treasury Strategy, which is adopted by the Council's members before the start of each financial year. All borrowings are with either the Public Works Loan Board or a major bank as lender.

Loans are offered by the Board over periods of one to fifty years and can be either at fixed or variable rates. There are also three methods of repaying loans; Maturity, by Equal Instalments of Principal (EIP), or as Annuity loans. The Council currently uses only the first type, and pays interest half-yearly in September and March. These payments are made by Direct Debit.

PWLB loans are fairly flexible; variable loans can be converted to fixed loans and vice versa, debt can be re-scheduled over different periods. Re-scheduling existing fixed rate debt however introduces an element of refinancing risk, which is increased in re-scheduling loans with long maturity profiles. The penalty (or premium) payable is dependent on the relationship between the loan rate and the current repayment rate for loans of a period equal to the unexpired term. As PWLB rates are reviewed daily, the timing of the rescheduling exercise is important if the costs of any penalties are not to cause problems to budgeted expenditure levels.

## Market Risk

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

All lending is in the form of cash deposits. There are no investments whose capital value may fluctuate, for example Gilts or Certificates of Deposit (CDs).

If Gilts were to be used, it would be on the basis of holding them to maturity so as not to introduce any element of risk.

## Price Risk

The authority does not generally invest in equity shares but does have two £1 shares in NPS (SW) Ltd and has an £83,600 equity investment in Science Park Ltd. These shares have a fair value of £247,000. Price is therefore not a significant risk for the authority.

# 20 Provisions (Current Liabilities)

Provisions are set up to meet known liabilities where the exact amount is not known when the accounts are prepared. They represent amounts already charged in the respective year in which the chargeable event took place.

| **Provisions estimated to be utilised after more than one year** | As at 01/04/09 £'000 | Amounts released £'000 | Amount utilised £'000 | Provided in year £'000 | **As at 31/03/10 £'000** | Amounts released £'000 | Amounts utilised £'000 | Provided in year £'000 | **As at 31/03/11 £'000** |
|---|---|---|---|---|---|---|---|---|---|
| Insurance Fund from 01/04/98 | (3,950) | 0 | 3,950 | (2,550) | **(2,550)** | | 1,191 | (1,191) | **(2,550)** |
| Out of date cheques | (173) | 0 | 88 | (101) | **(186)** | | 33 | (54) | **(207)** |
| ACC Pensions | (90) | 0 | 0 | 0 | **(90)** | | | | **(90)** |
| Job Evaluation Single Status | (8,846) | 0 | 5,645 | (1,257) | **(4,458)** | 837 | 898 | | **(2,723)** |
| Corporate Restructure | 0 | | | | **0** | | | (2,117) | **(2,117)** |
| Economy | (35) | 29 | 6 | | **0** | | | | **0** |
| Social Care & Community | (145) | 0 | 14 | (605) | **(736)** | | 361 | (391) | **(766)** |
| Property Related | (658) | 640 | 2 | 0 | **(16)** | | 1 | (52) | **(67)** |
| Waste Management | (39) | 0 | 39 | (218) | **(218)** | 432 | (764) | (176) | **(726)** |
| Trading Accounts | (717) | 267 | 338 | 0 | **(112)** | 20 | 92 | (60) | **(60)** |
| Youth Offending Training Service | (102) | 102 | 0 | 0 | **0** | | | | **0** |
| Green Travel Salary Sacrifice | 0 | 0 | 0 | (150) | **(150)** | 143 | | | **(7)** |
| **Total** | **(14,755)** | **1,038** | **10,082** | **(4,881)** | **(8,516)** | **1,432** | **1,812** | **(4,041)** | **(9,313)** |

## Insurance Provision

The Council's Insurance provision enables it to carry some of its insurable risks in-house, achieving significant savings in external premiums. It covers Public Liability, Professional Indemnity, Employers Liability and vehicles, but excludes theft and accidental damage. The amount shown above represents payments estimated to be made within twelve months.

## Out of Date Cheques

Cheques unpresented after six months are provided for while enquiries proceed and resolution reached. Periodic reviews are carried out where items remain unresolved after more than one year although none is considered as a long term item.

## Job Evaluation Single Status

Following completion of all appeals relating to single status job evaluation, there remains a requirement to provide for agreement and settlement of imputed taxation and pension contributions in relation to compensation payments from May 2008.

## Corporate Restructure

A number of staffing restructures had commenced in 2010/11 but as at 31 March 2011 had not been completed. Where the plans were developed sufficiently to have raised an expectation in individuals that they would be compensated for loss of office, the cost is included above.

## Social Care and Community

A further tranche of claims under the Mental Health Act 1983, section 117 has been received in connection with charges made by the Council for social care for which provision is considered appropriate.  Provision also continues to be made in connection wit the restructuring of care homes.

## Waste Management

A claim for recovery of landfill tax from the authority's waste contractor is provided for following a change to the landfill tax regulations on 1 September 2009.  The owner of land affording access to the in-vessel composting plant at Deepmoor is claiming compensation for the County Council's traversal.

## Trading Accounts

Provision for additional termination costs in relation to Supply Zone that ceased trading on 31st March 2011.

## Green Travel Salary Sacrifice

The authority's 'Green Travel' salary sacrifice scheme has given rise to a potential tax liability and, while negotiations continue with HMRC, settlement is expected within the next twelve months.

# 21 Creditors and Debtors

## 21.1 Creditors

These represent sums of money owed by the County Council for goods and services received during the year and not paid for by 31 March, or where money has been received by the County Council in advance.

| 1st April 2009 £000 | 31st March 2010 £000 | | 31st March 2011 £000 |
|---|---|---|---|
| (17,075) | (9,889) | Central Government | (14,671) |
| (4,902) | 150 | Other Local Authorities | (12,666) |
| 0 | (1,121) | NHS Bodies | (3,254) |
| (3,289) | 0 | Public Corporations & Trading Funds | (280) |
| (93,043) | (98,151) | Other Entities & Individuals | (103,478) |
| **(118,309)** | **(109,011)** | **Total** | **(134,349)** |

## 21.2 Debtors

These represent sums of money owed to the County Council for goods and services supplied during the year and not paid for by 31 March, or for payments in advance by the County Council.

| 1st April 2009 £000 | 31st March 2010 £000 | | 31st March 2011 £000 |
|---|---|---|---|
| 18,793 | 12,203 | Central Government | 20,791 |
| 5,450 | 3,217 | Other Local Authorities | 7,083 |
| 13,808 | 12,728 | NHS Bodies | 11,290 |
| 0 | 0 | Public Corporations & Trading Funds | 1,974 |
| 40,394 | 39,378 | Other Entities & Individuals | 38,043 |
| **78,445** | **67,526** | **Total** | **79,181** |

# 22 Provisions (Long Term Liabilities)

Provisions are set up to meet known liabilities where the exact amount is not known when the accounts are prepared. They represent amounts already charged in the respective year in which the chargeable event took place.

| **Provisions estimated to be utilised after more than one year** | As at 01/04/09 **£'000** | Amounts released **£'000** | Amount utilised **£'000** | Provided in year **£'000** | **As at 31/03/10 £'000** | Amounts released **£'000** | Amounts utilised **£'000** | Provided in year **£'000** | **As at 31/03/11 £'000** |
|---|---|---|---|---|---|---|---|---|---|
| Insurance Fund prior to 01/04/98 | (529) | | | (23) | **(552)** | | | | **(552)** |
| Insurance Fund from 01/04/98 | (7,192) | | | (1,330) | **(8,522)** | | 2,549 | (2,786) | **(8,759)** |
| Waste Management | (263) | 0 | 0 | (717) | **(980)** | | 980 | | **0** |
| **Total** | **(7,984)** | **0** | **0** | **(2,070)** | **(10,054)** | **0** | **3,529** | **(2,786)** | **(9,311)** |

## Insurance Provision

The Council's Insurance provision enables it to carry some of its insurable risks in-house, achieving significant savings in external premiums. It covers Public Liability, Professional Indemnity, Employers Liability and vehicles, but excludes theft and accidental damage. A separate provision has been created for the period prior to 1 April 1998 which covers events prior to local government reorganisation on that date. Both provisions, taken together are currently sufficient to meet registered claims as at 31 March 2011. Settlement of current claims would normally be expected within twelve months. However, amounts estimated to be utilised after more than one year represent claims likely to be settled over longer periods.

## Waste Management

The Waste Management Provision included as at 31 March 2010 has now been settled.

# 23 Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

| 1st April 2009 £000 | 31st March 2010 £000 | | 31st March 2011 £000 |
|---|---|---|---|
| 4,453 | 2,338 | Bank Current Accounts | 7,088 |
| 42,800 | 67,625 | Investments less than 90 days | 48,550 |
| **47,253** | **69,963** | | **55,638** |

# 24 Assets Held for Sale

The movement on Assets Held for Sale balances during the year is as follows:

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| 1,640 | **Balance outstanding at start of year** | 1,790 |
| | Assets newly classified as held for sale: | |
| 1,145 | Property, Plant and Equipment | 21,549 |
| | Assets declassified as held for sale: | |
| 0 | Property, Plant and Equipment | (205) |
| (995) | Assets sold | (11,054) |
| 1,790 | **Balance outstanding at year-end** | 12,080 |

# 25 Unusable Reserves

| 1st April 2009 | 31st March 2010 | | 31st March 2011 |
|---|---|---|---|
| **£000** | **£000** | | **£000** |
| 165,862 | 128,220 | Revaluation Reserve | 133,649 |
| 61 | 61 | Available for sale FI reserve | 163 |
| 727,140 | 730,820 | Capital Adjustment Account | 633,714 |
| (21,381) | (20,079) | Financial Instruments Adj Account | (19,309) |
| (7,084) | (1,864) | Equal Pay back pay account | 0 |
| (557,827) | (861,332) | Pensions Reserve | (490,096) |
| 2,809 | 2,381 | Collection Fund Adjustment Account | 3,673 |
| (11,318) | (12,933) | Accumulated Absences Account | (10,931) |
| 1,049 | 1,049 | Deferred Capital Receipts Reserve | 1,049 |
| **299,311** | **(33,677)** | | **251,912** |

## Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| **165,862** | **Balance at 1st April** | **128,220** |
| 7,530 | Upward revaluation of assets | 25,186 |
| (42,426) | Downward Revaluation of assets and impairment losses not charged to the Surplus/Deficit on the provision of services | (12,968) |
| 130,966 | Surplus or deficit on revaluation of non-curent assets not posted to the Surplus or Deficit on the Provision of Services | 140,438 |
| (1,933) | Difference between fair value depreciation and historical cost depreciation | (2,642) |
| (813) | Accumulated gains on assets sold or scrapped | (4,147) |
| (2,746) | Amount written off to the Capital Adjustment Account | (6,789) |
| **128,220** | **Balance at 31st March** | **133,649** |

## Available for sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Disposed of and the gains are realised.

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| 61 | **Balance at 1st April** | 61 |
| 0 | Upward revaluation of investments | 186 |
| 0 | Downward revaluation of investments | (84) |
| **61** | **Balance at 31st March** | **163** |

# Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisitions, construction or enhancement of those assets under statutory provision. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisation are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 9 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| 2009/10 £000 | | | 2010/11 £000 |
|---|---|---|---|
| **727,140** | **Balance 1st April** | | **730,820** |
| | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | | |
| (72,423) | - | Charges for depreciation and impairment of non-current assets | (78,659) |
| (7,712) | - | Revaluation losses on Property Plant and Equipment | (30,217) |
| (25) | - | Amortisation of intangible assets | (182) |
| (13,890) | - | Revenue expenditure funded from capital under statute | (14,071) |
| (3,083) | - | Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (83,419) |
| (97,133) | | | (206,548) |
| 2,746 | Adjusting amounts written out of the Revaluation Reserve | | 6,789 |
| (94,387) | Net written out amount of the cost of non-current assets consumed in the year | | (199,759) |
| | Capital financing applied in the year: | | |
| 7,213 | - | Use of the Capital Receipts Reserve to finance new capital expenditure | 10,685 |
| 60,925 | - | Application of grants to capital financing from the Capital Grants Unapplied Account | 60,762 |
| 26,766 | - | Statutory provision for the financing of capital investment charged against the General Fund | 28,651 |
| 3,163 | - | Capital expenditure charged against the General Fund | 2,555 |
| 98,067 | | | 102,653 |
| **730,820** | **Balance 31st March** | | **633,714** |

## Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains in accordance with statutory provisions. The Authority uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31st March 2011 will be charged to the General Fund over the next 30 years.

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| **(21,381)** | **Balance 1st April** | **(20,079)** |
| 702 | Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | 702 |
| 600 | Adjustments to softloans given by the Authority | 68 |
| 1,302 | Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements. | 770 |
| **(20,079)** | **Balance 31st March** | **(19,309)** |

## Equal Pay Back Pay Account

The Equal Pay Back Pay Account compensates for the differences between the rate at which the Authority provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the General Fund Balance until such time as cash might be paid out to claimants.

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| **(7,084)** | **Balance 1st April** | **(1,864)** |
| (1,864) | Increase in provision for back pay in relation to Equal Pay cases | 0 |
| 7,084 | Cash settlements paid in year | 1,864 |
| 5,220 | Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements | 1,864 |
| **(1,864)** | **Balance 31st March** | **0** |

## Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for past employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by the employees accruing years of services, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| **(557,827)** | **Balance 1st April** | **(861,332)** |
| (277,923) | Actuarial (gains) or losses on pensions assets and liabilities | 267,851 |
| (72,765) | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | 58,046 |
| 47,183 | Employer's Pensions contributions and direct payments to pensioners payable in the year | 45,339 |
| **(861,332)** | **Balance 31st March** | **(490,096)** |

## Collection Fund Adjustment Account

The Collection Fund Adjustment Account records the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Funds administered by the Billing Authorities.

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| **2,809** | **Balance 1st April** | **2,381** |
| (428) | Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | 1,292 |
| **2,381** | **Balance 31st March** | **3,673** |

## Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| **(11,318)** | **Balance 1st April** | **(12,933)** |
| 11,318 | Settlement or cancellation of accrual made at the end of the preceding year | 12,933 |
| (12,933) | Amounts accrued at the end of the current year | (10,931) |
| (1,615) | Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 2,002 |
| **(12,933)** | **Balance 31st March** | **(10,931)** |

## Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

There has been no movement in this Reserve.

# 26 Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made for use of assets (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisation is charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to directorates.

The income and expenditure of the Authority's principal directorates recorded in the budget reports for the year is as follows:

**2009-10**

**Directorate income and expenditure**

| | CYPS | ACS | EEC | OCX | CRD | **Total** |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | **£000** |
| Employees | 418,885 | 66,562 | 29,654 | 11,354 | 33,579 | **560,034** |
| Premises-related expenditure | 33,052 | 3,633 | 4,450 | 4,158 | 574 | **45,867** |
| Transport-related expenditure | 27,902 | 3,222 | 2,337 | 484 | 593 | **34,538** |
| Supplies and services | 89,033 | 9,191 | 52,919 | 4,896 | 12,548 | **168,587** |
| Third party payments | 55,633 | 173,249 | 49,999 | 3,576 | 846 | **283,303** |
| Transfer payments | 5,404 | 10,919 | - | - | - | **16,323** |
| Support services | 4,321 | 8,669 | 11,639 | 4,831 | 18,877 | **48,337** |
| Income | (520,118) | (90,925) | (35,671) | (13,413) | (50,914) | **(711,041)** |
| **Directorate totals** | 114,112 | 184,520 | 115,327 | 15,886 | 16,103 | **445,948** |

**2010-11**

**Directorate income and expenditure**

| | CYPS | ACS | EEC | OCX | CRD | **Total** |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | **£000** |
| Employees | 427,583 | 68,105 | 23,446 | 5,362 | 35,376 | **559,872** |
| Premises-related expenditure | 29,504 | 5,446 | 4,482 | 72 | 5,798 | **45,302** |
| Transport-related expenditure | 28,303 | 4,265 | 2,624 | 202 | 465 | **35,859** |
| Supplies and services | 118,350 | 11,362 | 88,769 | 3,706 | 19,376 | **241,563** |
| Third party payments | 74,987 | 172,195 | 17,204 | 1,204 | 367 | **265,957** |
| Transfer payments | 10,032 | 12,263 | | | | **22,295** |
| Support services | 24,608 | 5,509 | 5,133 | 2,485 | 13,153 | **50,888** |
| Income | (611,325) | (69,905) | (50,802) | (3,522) | (52,395) | **(787,949)** |
| **Directorate totals** | 102,042 | 209,240 | 90,856 | 9,509 | 22,140 | **433,787** |

**Key to directorates:**

| | |
|---|---|
| CYPS | Children and Young People's Services |
| ACS | Adult & Community Services |
| EEC | Environment, Economy & Culture |
| OCX | Office of the Chief Executive |
| CRD | Corporate Resources |

# Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

| | 2009/10 | 2010/11 |
|---|---|---|
| | £000 | £000 |
| Net expenditure in the Directorate Analysis | 445,948 | 433,787 |
| Net service expenditure not included in the Analysis | 13,144 | 6,329 |
| Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis | 111,999 | 34,235 |
| | 571,091 | 474,351 |
| Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement | (49,621) | (39,246) |
| **Cost of Services in the Comprehensive Income and Expenditure Statement** | **521,470** | **435,105** |

# Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

**2009/10**

| **Reconciliation of Subjective Analysis to Net cost of services and Net deficit** | Directorate analysis £000 | Items not in analysis £000 | Not reported to mngmnt £000 | Not included in I&E £000 | Allocn of recharges £000 | **Net cost of services £000** | Corporate items £000 | **Net deficit £000** |
|---|---|---|---|---|---|---|---|---|
| Employee expenses | 558,956 | 1,144 | 25,080 | (47,012) | - | **538,168** | | **538,168** |
| Other service expenses | 544,327 | 5,655 | 13,621 | (4,119) | 789 | **560,273** | | **560,273** |
| Support Services | 47,656 | | | | (47,656) | **-** | | **-** |
| Precepts & levies | | | | | | | 580 | **580** |
| Depreciation, amortisation and impairment | | | 73,542 | | | **73,542** | | **73,542** |
| Interest payable | | | | | | **-** | 28,516 | **28,516** |
| Pension Interest and expected return on assets | | | | | | **-** | 47,339 | **47,339** |
| PFI financing charges | | | | | | **-** | 6,425 | **6,425** |
| Gain or Loss on Disposal of Fixed Assets | | | | | | **-** | 817 | **817** |
| Surplus or deficit on internal trading accounts | 516 | 8 | 135 | (659) | | **-** | 477 | **477** |
| **Total operating expenses** | 1,151,455 | 6,807 | 112,378 | (51,790) | (46,867) | **1,171,983** | 84,154 | **1,256,137** |
| Fees, charges & other service income | (705,507) | 6,337 | (379) | 2,169 | 46,867 | **(650,513)** | | **(650,513)** |
| Interest and investment income | | | | | | **-** | (3,488) | **(3,488)** |
| Income from council tax | | | | | | **-** | (316,161) | **(316,161)** |
| Government grants and contributions | | | | | | **-** | (262,612) | **(262,612)** |
| **Total Income** | (705,507) | 6,337 | (379) | 2,169 | 46,867 | **(650,513)** | (582,261) | **(1,232,774)** |
| **Surplus or deficit on the provision of services** | 445,948 | 13,144 | 111,999 | (49,621) | - | **521,470** | (498,107) | **23,363** |

| **2010/11 Reconciliation of Subjective Analysis to Net cost of services and Net deficit** | Directorate analysis £000 | Items not in analysis £000 | Not reported to mngmnt £000 | Not included in I&E £000 | Allocn of recharges £000 | **Net cost of services £000** | Corporate items £000 | **Net deficit £000** |
|---|---|---|---|---|---|---|---|---|
| Employee expenses | 558,934 | 4,187 | (88,932) | (43,102) | (36,081) | **395,006** | | **395,006** |
| Other service expenses | 610,216 | 3,801 | 13,974 | (3,387) | (26,121) | **598,483** | | **598,483** |
| Support Services | 50,633 | 2,097 | | - | (52,730) | **-** | | **-** |
| Precepts & levies | | | | | | | 591 | **591** |
| Depreciation, amortisation and impairment | | | 109,020 | - | | **109,020** | | **109,020** |
| Interest payable | | | | | | **-** | 27,015 | **27,015** |
| Pension Interest and expected return on assets | | | | | | **-** | 26,636 | **26,636** |
| PFI financing charges | | | | | | **-** | 6,226 | **6,226** |
| Gain or Loss on Disposal of Fixed Assets | | | | | | **-** | 79,893 | **79,893** |
| Surplus or deficit on internal trading accounts | 1,234 | | 173 | (1,407) | | **-** | 1,283 | **1,283** |
| **Total operating expenses** | 1,221,017 | 10,085 | 34,235 | (47,896) | (114,932) | **1,102,509** | 141,644 | **1,244,153** |
| Fees, charges & other service income | (787,230) | (3,756) | | 8,650 | 114,932 | **(667,404)** | | **(667,404)** |
| Interest and investment income | | | | | | **-** | (1,926) | **(1,926)** |
| Income from council tax | | | | | | **-** | (324,721) | **(324,721)** |
| Government grants and contributions | | | | | | **-** | (278,302) | **(278,302)** |
| **Total Income** | (787,230) | (3,756) | - | 8,650 | 114,932 | **(667,404)** | (604,949) | **(1,272,353)** |
| **Surplus or deficit on the provision of services** | 433,787 | 6,329 | 34,235 | (39,246) | - | **435,105** | (463,305) | **(28,200)** |

# 27 Cash Flow - Non cash movements

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 613 | Gain or (Loss) on disposal of assets | (79,893) |
| (72,444) | Depreciation and impairment | (109,058) |
| (70,596) | Actuarial charges for retirement benefits | 60,159 |
| 33 | Financial instrument adjustments | 68 |
| (428) | Collection fund adjustment | 1,292 |
| (142,822) | **Net adjustment** | (127,432) |

# 28 Cash Flow - Operating payments and receipts not included in net deficit

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 47,183 | Employer's retirement benefit payments | 45,339 |
| (2,169) | Contributions by third parties to pensions costs | (2,113) |
| | Net cash (receipts)/payment in working capital applied to operating activities: | |
| 49 | Stock | (889) |
| (12,055) | Debtors (including accrued interest) | 12,710 |
| 171 | Creditors (including grants received in advance) | (19,806) |
| 4,169 | Provisions | (54) |
| 37,348 | **Net adjustment** | 35,187 |

# 29 Cash Flow - Operating activities

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 479,626 | Cost of services | 441,179 |
| 1,083 | Other Operating Expenditure | 1,825 |
| 27,652 | Financing and Investment Income and Expenditure | 31,444 |
| (590,472) | Taxation and Non-specific Grant Income | (594,893) |
| (82,111) | **Net cash flows from operating activities** | (120,445) |

# 30 Cash Flow - Investing Activities

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 121,339 | Purchase of property, plant and equipment | 131,076 |
| - | Purchase of intangible assets | 347 |
| - | Purchase of long term investments | 84 |
| 108,400 | Purchase of short term investments | 140,595 |
| 198 | Other payments | 325 |
| (2,292) | Sale of property, plant and equipment | (3,461) |
| (193,400) | Sale of short term investments | (135,595) |
| (4,773) | Other receipts | - |
| 29,472 | **Net cash flows from investing activities** | 133,371 |

# 31 Cash Flow - Financing activities

| 2009/10 £'000 | | 2010/11 £'000 |
|---|---|---|
| 1,929 | Payments applied in reducing finance lease and PFI liabilities | 2,189 |
| 28,000 | Repayments of long term borrowing | - |
| - | External Contributions to repayment of debt | (790) |
| 29,929 | **Net cash flows from financing activities** | 1,399 |

# 32 Trading Accounts

The County Council operated two trading units during the year where, in principle, costs are covered by generating income internally (from other parts of the authority) or externally (from other organisations). The only other trading unit (Devon Design and Print) ceased to operate in 2009/10. Details of these units are given below. The results are stated in accordance with the Best Value Accounting Code of Practice and include adjustments in respect of retirement benefit accounting and attributable overhead costs.

| **2009/10 £'000** | | | **2010/11 £'000** | **£'000** |
|---|---|---|---|---|
| (2,481) | **Supply Zone** is the procurement trading unit for the Authority | Turnover - External | (1,788) | |
| (2,645) | | Turnover - Internal | (2,330) | |
| 5,473 | | Expenditure | 5,401 | |
| **347** | | **(Surplus) / Deficit** | | **1,283** |
| (59) | **Devon Design and Print** provides the services of a printshop for the Authority | Turnover - External | 0 | |
| (348) | | Turnover - Internal | 0 | |
| 537 | | Expenditure | 0 | |
| **130** | | **(Surplus) / Deficit** | | **0** |
| **477** | **Net (Surplus) / Deficit on trading accounts** | | | **1,283** |

Supply Zone ceased normal operations at the end of January 2011 and closed on the 31st March.

Exceptional costs of £487,000 directly attributable to the closure of Supply Zone are included in exceptional items, not in the 2010/11 trading deficit above. The trading deficit does not take into account any capital receipts from the sale of the Trusham Road site previously occupied by the trading unit.

A separate statement is also included in respect of Devon Catering & Cleaning Services a trading organisation which primarily supports schools and whose results (prepared in accordance with the Best Value code, as below) are included within Children's and Education Services. Devon Catering & Cleaning Services also provides services to other establishments within the authority and to external customers.

| **2009/10 £'000** | | | **2010/11 £'000** |
|---|---|---|---|
| (6,679) | **Devon Catering and Cleaning Services** to schools and other DCC and external customers | Turnover - External | (6,197) |
| (10,487) | | Turnover - Internal | (10,112) |
| 16,868 | | Expenditure | 16,674 |
| **(298)** | **Net (Surplus) / Deficit included in Education Services** | | **365** |

# 33 Schemes under the Transport Act 2000

Devon County Council did not operate any schemes under this act in 2010/11.

# 34 Landfill Allowances Trading Scheme

As a Waste Disposal Authority (WDA) the County Council is required to comply with the Landfill Allowance Trading Scheme (LATS) which commenced operation on 1 April 2005.

LATS is a 'Cap and Trade' Scheme whereby Landfill Vintage Allowances are allocated free of charge to authorities. These allowances can then be traded with other WDA's depending on the needs of each authority. The County Council undertook no trading of allowances in 2010/11.

The County Council is required to account for the use made of the LATS allowance in 2010/11, based on a notional allowance value. This value is subject to evaluation by individual local authorities. The value assigned at the balance sheet date is £0 per tonne as local experience indicates that, in practice, the allowances have no value. No transactions or balances relating to LATS are included within these accounts.

# 35 Members' Allowances

The authority pays its elected members basic allowances, special responsibility allowances and travel and subsistence. During 2010/11 £1,001,576 was paid (£1,011,173 in 2009/10).

# 36 Officers' Remuneration

## 36.1 Senior Officers Remuneration

The County Council is required to:

a. Name all officers that earn over £150,000 per annum for all or part of a year.

b. List all post holders who earn between £50,000 and £150,000 for all or part of a year and who also fit the following criteria:

- They report directly to the Chief Executive, or;
- They are part of the Councils Senior Management Team, or;
- They hold posts required by statute (the Chief Finance Officer and the Monitoring Officer)

The remuneration paid to the Authority's senior employees is as follows:

| | Note | | Salary, Fees and Allowances £ | Expenses Allowances £ | Benefits in Kind (e.g Car Allowances) £ | Pension contributions £ | **Total £** |
|---|---|---|---|---|---|---|---|
| Head Teacher | 1 | 2010/11 | 161,703 | 0 | 0 | 22,800 | **184,503** |
| (A Alexander) | | 2009/10 | 165,266 | 0 | 0 | 23,303 | **188,569** |
| Head Teacher | | 2010/11 | 150,785 | 0 | 5,764 | 21,261 | **177,810** |
| (S Maddern) | 2 | 2009/10 | 145,477 | 0 | 5,461 | 20,512 | **171,450** |
| Chief Executive | 3 | 2010/11 | 149,995 | 226 | 0 | 22,499 | **172,720** |
| | | 2009/10 | 155,607 | 907 | 0 | 23,341 | **179,855** |
| Deputy Chief Executive | 4 | 2010/11 | 137,574 | 7 | 0 | 20,636 | **158,217** |
| | | 2009/10 | 132,893 | 16 | 0 | 19,934 | **152,843** |
| Executive Director of Children | | 2010/11 | 129,700 | 0 | 0 | 19,455 | **149,155** |
| & Young People's Services | | 2009/10 | 129,700 | 523 | 0 | 19,455 | **149,678** |
| Interim Executive Director of | | 2010/11 | 129,700 | 906 | 0 | 19,455 | **150,061** |
| Adult & Community Services | 5 | 2009/10 | 86,467 | 604 | 0 | 12,970 | **100,041** |
| County Solicitor | | 2010/11 | 107,573 | 33 | 0 | 16,136 | **123,742** |
| | 6 | 2009/10 | 26,026 | 10 | 0 | 3,904 | **29,940** |
| Director of Finance | | 2010/11 | 107,573 | 0 | 0 | 16,136 | **123,709** |
| | | 2009/10 | 107,751 | 4 | 0 | 16,163 | **123,918** |
| Head of the Office of the Chief | | 2010/11 | 74,755 | 87 | 0 | 11,213 | **86,055** |
| Executive | | 2009/10 | 74,057 | 110 | 0 | 11,109 | **85,276** |
| Interim Executive Director of | 7 | 2010/11 | 0 | 0 | 0 | 0 | **0** |
| Environment, Economy & Culture | | 2009/10 | 0 | 0 | 0 | 0 | **0** |

Notes:

1) Head Teacher Mr A Alexander left DCC employment on 31/03/11

2) Head Teacher Mr S Maddern's salary for 2009/10 is included above for comparison purposes but was not disclosed in last year's accounts as it was below £150,000 at that time.

3) The Chief Executive's salary has reduced from 2009/10 after taking a voluntary pay reduction of 5% in January 2010.

4) In November 2009 the Executive Director of Corporate Resources assumed the role of Deputy Chief Executive.

5) Interim Executive Director of ACS commenced in this post on 1st August 2009 Annual Salary for 2009/10 would have been £129,700. Interim arrangements were entered into due to uncertainty regarding Local Government Re-organisation.

6) County Solicitor started 4th January 2010. Annual Salary for 2009/10 would have been £107,573.

7) The Interim Executive Director of Environment Economy & Culture started on 25th October 2009 and left 31st March 2011. Figures are not given for this post as the post holder is not directly employed by the Council and does not fall within the given criteria. The post holder's services are obtained through Capita Group plc at a cost of £151,107 for the financial year 2010/11 and £63,687 for 2009/10. This arrangement had been required due to the uncertainty of Local Government Re-organisation.

## 36.2 Officers Remuneration

The Authority's employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) is set out below. This table includes those Officers disclosed in 36.1

| 2009/10 | | | | Emoluments | 2010/11 | | | |
|---|---|---|---|---|---|---|---|---|
| Schools Staff | Other Staff | Total | Left in Year | £ | Schools Staff | Other Staff | Total | Left in Year |
| 157 | 67 | **224** | 5 | **50,000 - 54,999** | 161 | 70 | **231** | 5 |
| 74 | 48 | **122** | 7 | **55,000 - 59,999** | 68 | 41 | **109** | 8 |
| 37 | 13 | **50** | 1 | **60,000 - 64,999** | 46 | 14 | **60** | 5 |
| 17 | 5 | **22** | 2 | **65,000 - 69,999** | 20 | 13 | **33** | 6 |
| 9 | 7 | **16** | 1 | **70,000 - 74,999** | 15 | 6 | **21** | 3 |
| 10 | 2 | **12** | 2 | **75,000 - 79,999** | 8 | 3 | **11** | 2 |
| 7 | 2 | **9** | 1 | **80,000 - 84,999** | 9 | 2 | **11** | 4 |
| 4 | 2 | **6** | 1 | **85,000 - 89,999** | 10 | 2 | **12** | 6 |
| 5 | 1 | **6** | 1 | **90,000 - 94,999** | 3 | | **3** | |
| 1 | 2 | **3** | 1 | **95,000 - 99,999** | 5 | 3 | **8** | 2 |
| | 1 | **1** | | **100,000 - 104,999** | 1 | 2 | **3** | 3 |
| | 3 | **3** | | **105,000 - 109,999** | | 5 | **5** | 2 |
| | 1 | **1** | | **110,000 - 114,999** | 1 | 2 | **3** | 2 |
| 2 | | **2** | 1 | **115,000 - 119,999** | | 1 | **1** | 1 |
| 1 | | **1** | | **120,000 - 124,999** | | 1 | **1** | 1 |
| | | | | **125,000 - 129,999** | | 1 | **1** | |
| | 2 | **2** | | **130,000 - 134,999** | | 2 | **2** | 1 |
| | | | | **135,000 - 139,999** | | 1 | **1** | |
| | | | | **140,000 - 144,999** | | | | |
| | | | | **145,000 - 149,999** | | | | |
| 1 | | **1** | | **150,000 - 154,999** | | 1 | **1** | |
| | 1 | **1** | | **155,000 - 159,999** | 1 | | **1** | |
| | | | | **160,000 - 164,999** | 1 | | **1** | |
| 1 | | **1** | | **165000 - 169,999** | | | | |

# 37 Audit Fees

In 2010/11 the County Council incurred the following fees relating to the external audit and inspection:

| 2009/10 £000 | Fees Payable to the Audit Commission | 2010/11 £000 |
|---|---|---|
| 246 | With regard to the external services carried out by the appointed auditor under the Audit Commissions Code of Audit Practice in Accordance with section 5 of Audit Commission Act 1998. | 239 |
| 17 | In respect of statutory inspection under section 10 of the Local Government Act 1999 | 0 |
| 9 | For the certification of grant claims and returns by the appointed auditor under section 28 of the Audit Commission Act 1998. | 5 |
| 0 | In respect of other services provided | 0 |
| 272 | | 244 |

# 38 Government Grants

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

### Credited to Taxation and Non Specific Grant Income

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| | **Revenue Grants:** | |
| (28,691) | Revenue Support Grant | (20,431) |
| (36,759) | Area Based Grant | (51,439) |
| (343) | Local Authority Business Growth Incentive Scheme | 0 |
| (2,955) | Local Public Service Agreement Reward Grant | 0 |
| (4,227) | Private Finance Initiative - Interest | (5,139) |
| **(72,975)** | | **(77,009)** |
| | **Capital Grants:** | |
| (20,588) | Devolved Formula Capital - DCSF grant | (11,359) |
| (996) | Exeter Science Park - RDA grant | (6,052) |
| (462) | Bridge over the M5 - HCA grant | (5,038) |
| (2,599) | Broadband Standards Fund - DCSF grant | (3,461) |
| (9,810) | Strategic Programme Grant - DCSF | (3,024) |
| (19) | Teignbridge Transport Infrastructure - HCA grant | (2,381) |
| (3,471) | Targetted Capital Fund - DCSF grant | (2,321) |
| (2,955) | LPSA2 Reward Grant | 0 |
| (24,430) | Other | (26,961) |
| **(65,330)** | | **(60,597)** |
| **(138,305)** | | **(137,606)** |

## Credited to Services

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| | TAMP Systems and Processes | 150 |
| | Cycle England activities within Exeter | 285 |
| | Where will you cycle today | 428 |
| 740 | Road Safety | |
| | Highways winter road damage rectification | 12,930 |
| | S106 contributions paid by developers | 791 |
| | Bere Alston Railway | 287 |
| | Bus Services Operators Grant | 261 |
| 4 | Supporting Community Transport Grant | 425 |
| 537 | Future Jobs Fund | 1,123 |
| 439 | Skills for Life | 721 |
| 427 | Blackdown Hills AONB | 268 |
| 507 | Sustainable Economies in Rural Communities | |
| 197 | Gateway Study | |
| | Skills for Care | 467 |
| 2,178 | Skills Funding Agency/Young Persons Learning Agency | 3,231 |
| 2,898 | Social Care Reform | 2,900 |
| | NHS Devon - S256 Agreement | 750 |
| 150 | Safe at home handy person | 233 |
| 19,250 | Supporting People | |
| | Construction Framework South West | 291 |
| 501 | Animal Movement Licences | |
| | Total Place | 250 |
| | Golden Hello | 359 |
| | Training Schools | 302 |
| | Social Work Improvement Fund | 208 |
| 241 | Contact Point | 221 |
| | Targeted Mental Health in schools | 157 |
| | Aiming High for Disabled Children | 1,962 |
| | Unacompanied Asylum Seeking Children | 206 |
| 14,391 | Sure Start | 17,665 |
| | YPLA College Passport | 14,915 |
| 232 | Substance misuse | 245 |
| 306 | Youth Opportunity Fund | 397 |
| | Rural Communities Sport | 229 |
| | Active Villages | 253 |
| 556 | Youth Justice Board | 1,321 |
| 2,711 | Private Finance Initiative | 1,798 |
| 1,952 | Exeter Diocese St Peter's School | 1,739 |
| | Young Apprentices | 227 |
| | Education Business Link | 368 |
| | Consortia Support Grant | 271 |
| | 14-19 Partnership Delivery Grant | 394 |
| | Diploma Funding Grant | 500 |
| | Think Family Grant | 409 |
| 1,133 | SCITT Teacher Training | 351 |
| | SWGaTE | 180 |
| 1,153 | Personal and Community Development Learning | |
| 563 | First Steps | |
| 452 | Employer Responsive FE Workplan NVQ | |
| 483 | Higher Education Funding Council | 515 |
| 30,691 | YPLA Post 16 Funding | 26,994 |
| 359,179 | Dedicated Schools Grant | 384,979 |
| 55,180 | Standards Funds | 43,919 |
| 5,770 | Other Grants below £0.150m | 9,646 |
| **502,821** | | **536,521** |

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income within the Comprehensive Income and Expenditure Statement as they have conditions attached to them that may require the monies to be returned to the giver if the conditions are not met. The balances at the year end are:

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| | **Revenue Grants (Included within Creditors):** | |
| (1,919) | S106 Developer Contributions | (2,428) |
| 0 | Future Jobs Fund | (255) |
| 0 | Skills Funding Agency/Young Persons Learning Agency | (861) |
| 0 | Social Care Reform | (881) |
| 0 | Schools Standards Fund | (145) |
| (10) | Other | (179) |
| **(1,929)** | | **(4,749)** |
| | **Capital Grants (Included within Capital Grants Receipts in Advance):** | |
| (12,997) | Devolved Formula Capital | (8,827) |
| (2,319) | Targetted Capital Fund | (3,176) |
| (1,389) | School Travel plans | (1,339) |
| (2,230) | Strategic Programme Grant | (884) |
| (1,650) | Broadband Standards Fund | (135) |
| (446) | Contributions to Exmouth's the Strand Enhancements | 0 |
| (411) | Contributions from Royal Naval Stores site development | (411) |
| (7,592) | Other | (6,571) |
| **(29,034)** | | **(21,343)** |

# 38.1 Details of the deployment of DSG receivable for 2010/11 are as follows:

The council's expenditure on schools is funded primarily by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools Grant (DSG). DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget included elements for a range of educational services provided on an authority-wide basis and for the individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2010/11 are as follows:

| 2009/10 £000 | | 2010/11 Central Expenditure £000 | ISB £000 | Total £000 |
|---|---|---|---|---|
| 359,179 | Final DSG | 42,632 | 321,005 | 363,637 |
| 1,020 | Brought forward | 1,306 | 0 | 1,306 |
| 0 | Carry forward agreed in advance | 0 | 0 | 0 |
| 360,199 | Agreed budgeted distribution | 43,938 | 321,005 | 364,943 |
| (38,796) | Actual central expenditure | (42,877) | 0 | (42,877) |
| (320,897) | Actual ISB deployed to schools | 0 | (321,005) | (321,005) |
| 800 | Local authority contribution | 0 | 0 | 0 |
| 1,306 | Carry forward | 1,061 | 0 | 1,061 |

# 39 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

**Summary of Capital Expenditure and Sources of Finance**

| **2009/10 Restated £000** | | **2010/11 £000** |
|---|---|---|
| 659,334 | **Opening Capital Financing Requirement** | 699,962 |
| 1,572 | Adjustment to opening position | 0 |
| 660,906 | | 699,962 |
| | **Capital Investment** | |
| 122,572 | Property, Plant and Equipment | 129,046 |
| 0 | Financial Assets | 84 |
| 519 | Intangible Assets | 347 |
| 16,411 | Revenue Expenditure Funded from Capital under Statute (REFCUS) | 14,071 |
| | **Sources of Finance** | |
| (7,212) | Capital Receipts | (10,685) |
| (60,925) | Government Grants and other contributions | (60,762) |
| | Sums set aside from revenue: | |
| (3,163) | Direct revenue contributions | (2,555) |
| (29,146) | Statutory provision for the financing of capital investment | (29,441) |
| 0 | Borrowing Transferred to Plymouth and Torbay Councils | (53,790) |
| 699,962 | **Closing Capital Financing Requirement** | 686,277 |
| | | |
| 639,569 | Borrowing | 628,073 |
| 60,393 | Other Long Term Liabilities | 58,204 |
| 699,962 | **Underlying Debt Requirement** | 686,277 |
| | | |
| | **Explanation of Movements in Year** | |
| 48,787 | Increase in underlying need to Borrow (supported by government financial assistance) | 46,374 |
| 19,415 | Increase in underlying need to Borrow (unsupported by government financial assistance) | 23,172 |
| 0 | Assets acquired under finance leases | 0 |
| 0 | Borrowing Transferred to Plymouth and Torbay Councils | (53,790) |
| (1,929) | Reduction of PFI liability | (2,189) |
| (27,217) | Increase in the provision for repayment of debt | (27,252) |
| 39,056 | **Increase/(decrease) in Capital Financing Requirement** | (13,685) |

# 40 Partnerships and Related Party Transactions

The Council is required to disclose material transactions with related parties, bodies and individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

**Central Government** has effective control over the general operations of the Council. It is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Details of transactions with government departments are set out in Note 38.

**Members of the Council** have direct control over the Council's financial and operating policies. The Council's constitution requires members to declare their interests in related parties in a register of interests. In addition members are asked to declare separately any transactions with the authority. Transactions which require disclosure are in respect of one member who has interests in a company which has received in total £11,028 from the Council during the year. These transactions were entered into in full compliance with the County Council's Financial Regulations and Code of Business Conduct.

**Officers** are bound by the Council's Code of Business Conduct which seeks to prevent related parties exerting undue influence over the authority. Directors are required to declare any transactions with the authority. No transactions have been identified.

## 40.1 Local Precepts

The following precepts were paid during the year:

| **2009/10 £000** | | **2010/11 £000** |
|---|---|---|
| 226 | Environment Agency | 231 |
| 354 | Devon Sea Fisheries | 360 |

For the financial year 2010/11, the Council's County Treasurer acted as the Chief Finance Officer for the Dartmoor National Park Authority and the Devon Sea Fisheries Committee. Also during 2010/11 the Council's HR department provided help and support to Devon Sea Fisheries. The Council received payments from these bodies for services provided as follows:

| **2009/10 £000** | | **2010/11 £000** |
|---|---|---|
| 114 | Dartmoor National Park | 92 |
| 7 | Devon Sea Fisheries | 23 |

The Council gave grants to Dartmoor National Park Authority of £78,000 (2009/10 £80,000) principally for the maintenance of footpaths, bridleways and footbridges and received grants of £12,000 (2009/10 £18,000) mainly for the support of public rights of way.

## 40.2 Other public sector bodies

Devon Primary Care Trust has provided £82.678 million of income to the County Council of which £29.302 million is included in the Comprehensive Income and Expenditure Statement and received payments of £8.401 million during the year. The income is primarily for funded nursing care payments that are administered by the County Council on behalf of the Trust and other healthcare partnership agreements.

## 40.3 Transaction with the Pension Fund

The Council charged the fund £1.483 million for expenses incurred in administering the fund.

## 40.4 Assisted Organisations

The Council has provided significant contributions to the following bodies:

- Seven District Councils in Devon a total of £0.653 million conditional on long term agreements for the daytime use of pools and dual use sports halls by schools, without charge.
- Citizens Advice Bureaux in Devon have received £0.549 million and the Council for Voluntary Services £0.796 million from the Council conditional on long term agreements for the provision of services.
- The Community Council of Devon, The Devon Council for Racial Equality, Devon Historic Buildings Trust, Southwest Pound, the Senior Council for Devon and Exeter Cathedral have received grants of £0.811 million, £0.022 million, £0.005 million, £0.099 million, £0.152 million and £0.016 million respectively.
- Devon Authorities Waste Reduction and Recycling Joint Committee received £0.093m as a contribution towards its funding.

## 40.5 Partnerships

There are a number of partnerships in which the County Council participates. The most significant of these are shown in the table below.

| | | 2009/10 | | | 2010/11 | | |
|---|---|---|---|---|---|---|---|
| Reference - see below | | Income £'000 | Expenditure £'000 | Net Expenditure £'000 | Income £'000 | Expenditure £'000 | Net Expenditure £'000 |
| | **Health - Section 75 partnerships** | | | | | | |
| a | Joint Equipment Store | (1,265) | 2,568 | 1,303 | (1,946) | 3,209 | 1,263 |
| b | Integrated Health and Social Care | (151) | 1,130 | 979 | (163) | 1,094 | 931 |
| | **Other partnerships** | | | | | | |
| c | Against Domestic Violence & Abuse | (403) | 1,416 | 1,013 | (310) | 1,372 | 1,062 |
| d | Devon Audit Partnership | (1,345) | 1,772 | 427 | (1,080) | 1,671 | 591 |
| e | Devon Partnership Trust | (158) | 1,625 | 1,467 | (185) | 1,674 | 1,490 |
| f | Electronic Single Assessment | (607) | 663 | 56 | (428) | 519 | 91 |
| g | Safer Devon Partnership | (283) | 742 | 459 | (398) | 872 | 474 |
| h | South West Devon Waste Partnership | 0 | 263 | 263 | 0 | 342 | 342 |
| i | Speed Camera Partnership | 0 | 682 | 682 | 0 | 459 | 459 |
| j | Youth Offending Team | (922) | 746 | (176) | (902) | 1,535 | 633 |

a) The Council operates a pooled budget in conjunction with Devon Primary Care Trust and North Devon Health Care Trust under the terms of Section 75 of the Health Act 2006, which covers the provision of a Joint Community Equipment Store. Gross expenditure is £3.209 million (£2.568 million in 2009/10). The Council's net contribution to the pool is £931,000 (£1,303 million in 2009/10). The Council's share (50%) of the stock and liabilities are held on the Council's balance sheet.

b) The integrated health and social care management structure is a partnership arrangement under the terms of section 75 of the Health Act 2006, but is not a pooled budget. Staff are employed either by, Devon CC, Devon PCT or North Devon Healthcare Trust, and agreed proportions of the cost of these staff are shared with other partners to the arrangement.

c) The Against Domestic Violence & Abuse Partnership comprises the County Council, Devon & Cornwall Police Authority, the National Probation Service, Devon Primary Care Trust, and the Department of Communities and Local Government. Additional funding is allocated from the Safer Devon Partnership (see g below). Expenditure includes a grant payment to three women's aid organisations totalling £939,000.

d) Devon Audit Partnership is a Joint Committee formed by Devon County Council, Plymouth Council and Torbay Council. The partnership provides an Internal Audit service to the three Councils.

e) The Devon Health & Social Care Partnership Trust manages the provision of services for people with learning difficulties and mental health needs on behalf of the County Council and the Primary Care Trusts operating in Devon. The spending shown above represents the County Council's contribution to the joint working arrangement.

f) The County Council manages the development of the Electronic Single assessment Process (ESAP) on behalf of 13 local authorities in the South West.

g) The Safer Devon Partnership comprises the County Council, Devon and Cornwall Police Authority, Devon Combined Fire & Rescue Authority, and Devon Primary Care Trust. Funding is received from all the partner organisations. Funding is allocated to projects selected by the Safer Devon Partnership to deal with local and county-wide crime and disorder issues.

h) The South West Devon Waste Partnership is an equal partnership between Devon County Council, Plymouth City Council and Torbay Council which is establishing arrangements to convert waste into energy.

i) The Speed Camera Partnership has a membership that includes highways authorities in Devon and Cornwall, Devon and Cornwall Police Authority and the Highways Agency. Its purpose is to reduce road casualties by deterring and detecting speeding and traffic light offences. Funding is drawn from the Road Safety Grant.

j) The Youth Offending Team is a statutory partnership funded by contributions from the County Council, Devon & Cornwall Police Authority, Devon Primary Care Trust and the National Probation Service, as well as a combination of government grant. The initiative provides programmes to reduce youth re-offending and youth crime prevention programmes to reduce first time offending.

## 40.6 Subsidiary and Associated Companies and joint ventures

**The PLUSS Organisation Ltd**. [registered company no. 05171613]

The company is limited by guarantee, with no share capital. The principal activity of the company is the provision of employment and work-related services for people with disabilities. The four local authority members, Devon County Council, Plymouth City Council, Torbay Council and Somerset County Council have equal voting rights. The members of the Company have no right to share in the net assets of the Company should it be dissolved. Profits and losses are retained by the company. The Company's performance during 2010/11 is as follows:

| Restated 2009/10 | | 2010/11 |
|---|---|---|
| £000 | | £000 |
| 318 | Operating profit/(loss) for the year | 2,637 |
| (3,855) | Net assets at the balance sheet date | 894 |
| 5,375 | Net transactions with the Council during the year | 5,316 |

A loan arrangement with the Company is disclosed in Note 17 and a guarantee for pension liabilities is disclosed at Note 44.

Copies of the Company's accounts can be obtained from the PLUSS Organisation Limited, 22 Marsh Green Road, Exeter, Devon, EX2 8PQ.

**NPS South West Ltd** [registered company no. 06078903]

The Company was established on 1 April 2007 to provide property management services. The Council has a 20% equity holding in the Company and appoints two members to its Board that comprises six members in total. Pre-tax profits are shared equally between the Council and NPS (SW) Ltd, the Council's share being used to discount the payments it makes to the company for property management services provided to it. The Company's performance during 2010/11 is as follows:

| 2009/10 | | 2010/11 |
|---|---|---|
| £000 | | £000 |
| 366 | Operating profit for the year | 933 |
| 560 | Net assets at the balance sheet date | 762 |
| 7,748 | Net transactions with the Council during the year | 7,954 |

A guarantee for premises liabilities is disclosed at Note 44.

Copies of the Company's accounts can be obtained from the NPS South West Ltd, County Hall, Martineau Lane, Norwich, Norfolk NR1 2DH.

**Careers South West Ltd** (previously Connexions Cornwall and Devon Ltd) [registered company no. 3029947]

On 1 April 2008 the Company became a local authority controlled company limited by guarantee. The principal object of the Company is to develop, co-ordinate and ensure provision of support services for young people and to provide careers advice, information and guidance services to people of all ages. The council is one of four members of the Company. The members have guaranteed the Cornwall Pension Scheme, such that in the event of the Company being wound up, any outstanding pension liabilities relating to Company employees, will be met by the members, 45% of the liability will be met by Devon County Council. The Company's performance during 2010/11 is as follows:

| 2009/10 | | 2010/11 |
|---|---|---|
| £000 | | £000 |
| 593 | Surplus for the year | 408 |
| 1,584 | Net assets at the balance sheet date | 1,879 |
| 5,247 | Net transactions with the Council during the year | 4,303 |

A guarantee for pension liabilities is disclosed at Note 44.

Copies of the Company's accounts can be obtained from Connexions Cornwall and Devon Ltd, Tamar Business Park, Pennygillam Industrial Estate, Launceston, Cornwall PL15 7ED.

**South West Forest Ltd** [registered company no. 06600851]

This Company was incorporated on 22 May 2008 to revitalise the rural economy and environment of the area for the benefit of local people, by focusing on rural land based policies and activities. Its aims are to use new woodland planting, management and utilisation as a catalyst, alongside other activities, for regeneration in the rural land-based sectors and communities, to secure integrated social, economic and environmental benefits. The Company has not started to trade. The company's registered office is Ashford House, Grenadier Road, Exeter, EX1 3LH.

**Exeter Skypark Ltd** [registered company no. 02021631]

The company was set up on 21 May 1986 to develop the Skypark site as a business and industrial site. However it has never been used and is currently dormant.

**Skypark Development Partnership LLP** [registered company no. OC343583]

The company was set up on 24 February 2009. The company is a limited liability partnership of which the Council has a fifty percent interest. The purpose of the partnership is to develop a business park which will offer high quality employment opportunities. As at the 31 March 2009 the partnership had no material assets or liabilities and has not produced any financial statements. The company's registered office is Sir Stanley Clarke House, 7 Ridgeway, Quinton Business Park, Birmingham, B32 1AF.

| 2009/10 | | 2010/11 |
|---|---|---|
| £000 | | £000 |
| 2 | Loss for the year | 1 |
| (1) | Net assets at the balance sheet date | (3) |
| 0 | Net transactions with the Council during the year | 0 |
| 0 | Loan from Council to Skypark LLP | 325 |

**Exeter Science Park Ltd** [registered company no. 06828415]

The company was set up on 24th February 2009. The Council has a forty nine percent interest. The Science Park Company operates under 'de minimis' State Aid regulations with the intention of promoting Exeter Science Park. The company's registered office is Exeter Science Park Limited, The Innovation Centre, Rennes Drive, Exeter, Devon, EX4 4RN.

| 2009/10 | | 2010/11 |
|---|---|---|
| £000 | | £000 |
| 0 | Loss for the year | 138 |
| 0 | Net assets at the balance sheet date | 32 |
| 0 | Net transactions with the Council during the year | 6 |

**South West Grid for Learning** [registered company no. 5589479].

The company is limited by guarantee. The County Council is one of 15 member authorities based in the South West. The principal activity of the Company is to provide education information technology support services. A guarantee for pension liabilities is disclosed at Note 45.

## 40.7 Combined interest

The combined interest in these companies is not material and therefore group accounts have not been prepared.

# 41 Private Finance Initiative

## Exeter Schools - PFI Scheme

2010/2011 was the sixth year of a 28 year PFI contract for the construction, maintenance and operation of 5 secondary and 1 primary schools in the city of Exeter. The contract confers rights to the Governing Bodies of the schools for 195 School Days from 8am to 5.30pm. During these hours and on these days the schools should be fully functional. In addition staff should be able to gain access to all areas of the school from 7.30am to 6.00 pm.

Additionally each school is entitled to additional school periods defined within the Project Agreement which were agreed prior to commencement. These vary between individual schools.

The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards. The contractor took on the obligation to construct the schools and maintain them in a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate the schools. The buildings and any plant and equipment installed in them at the end of the contract will be transferred to the Authority in a condition complying with the Residual Life Requirements, for nil consideration. The Authority only has rights to terminate the contract if it compensates the contractor in full for the Senior Debt, subordinate debt and any other costs incurred.

Up to and including the financial year 2008/09, it was only the land associated with the PFI scheme that was included within the figures on the balance sheet. From 2009/10 onwards, due to a change in accounting policy, the land and buildings of the non Voluntary – Aided PFI schools in Exeter are included within the fixed assets on the balance sheet. The corresponding liabilities are included within short and long term liabilities on the balance sheet.

During the course of 2010/11, one of the PFI schools, St James, became a trust. The effect of this is to remove the school from the balance sheet although the liabilities related to the PFI contract stay with the council and remain on the balance sheet. The financing of this contractual liability has not changed.

**Value of Assets held under PFI contracts**

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| 73,358 | Opening Net Book Value | 67,632 |
| 0 | Derecognition | (14,589) |
| 10 | Additions | 35 |
| (1,281) | Depreciation | (2,215) |
| (4,455) | Revaluations | 2,326 |
| **67,632** | **Closing Net Book Value** | **53,189** |

**Value of Liabilities held under PFI contracts**

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| 62,322 | Opening Liability | 60,393 |
| (1,929) | Repayment of Liability | (2,189) |
| **60,393** | **Closing Liability** | **58,204** |

The assets and liabilities associated with the Voluntary Aided school within the Exeter Schools PFI scheme, St Peters, are not included in the financial statements.

Payments due to be made under the PFI Contract for Liabilities held on Balance Sheet include a service element for the schools' premises costs and capital financing payments that relate to the reduction of liability and an amount for interest. The figures shown in the table below do not include any adjustments for inflation.

**Payments to be made under the PFI Contract for Liabilities held on Balance Sheet**

| | Repayments of Liability £000 | Interest Charges £000 | Service Charges £000 | Other Cash Charges £000 | Total Payments £000 |
|---|---|---|---|---|---|
| Within 1 year | 2,178 | 6,000 | 2,036 | 380 | **10,594** |
| Within 2 - 5 years | 9,428 | 21,636 | 8,732 | 2,345 | **42,141** |
| Within 6 - 10 years | 12,934 | 21,414 | 12,377 | 5,571 | **52,296** |
| Within 11 - 15 years | 13,616 | 14,368 | 14,247 | 8,353 | **50,585** |
| Within 16 - 20 years | 12,273 | 7,569 | 16,422 | 12,668 | **48,933** |
| Within 21 - 25 years | 7,774 | 1,505 | 8,806 | 4,340 | **22,426** |

Payments under the contract commenced in 2005/06. For both the on balance sheet schools and the off balance sheet schools the total payments under the contract amount to £351million. Set against this is a grant of £249 million that will be received from central government. Of the balance, £71 million will be met from delegated school budgets and the remainder (£31million) will be financed by the county council. The un-discharged liability to Devon County Council under the contract is £17.792 million of which the maximum in any year is £1.7million. In 2010/11, Devon County Council's contribution was £1.65million.

# 42 Impairment Losses

No impairment losses have been charged to the Comprehensive Income and Expenditure Statement in 2010/11 (2009/10 £nil).

# 43 Leases and Contract Hire

### Finance leases (Council as Lessor)

Land and Buildings – the Council has 9 assets that are leased to tenants that meet the definition of a Finance Lease. All of the assets are included within Non Current Assets on the Balance Sheet. The present value at 31st March 2011 of the rental payments due to the Council is £0.78m. The lease debtor is not included within the Balance Sheet as the sum is not material. The annual lease income is accounted for within the Comprehensive Income and Expenditure Statement as it falls due.

### Finance leases (Council as Lessee)

Land and Buildings – the Council has 20 assets that are held on Finance Leases. The Council's interest in the assets is included within Non Current Assets on the Balance Sheet. The value of the assets at 31st March 2011 is £6.32m. The present value of lease payments to be made over the term is estimated to be £0.18m. The lease liability is not included within the Balance Sheet as the sum is not material. The annual lease payments are accounted for within the Comprehensive Income and Expenditure Statement as they fall due.

### Operating leases (Council as Lessee)

The future minimum lease payments due under non-cancellable leases in future years are:

| **2009/10** | Property £000 | Equipment £000 | Contract Hire £000 | **Total £000** |
|---|---|---|---|---|
| Not later than 1 year | 665 | 245 | 205 | **1,115** |
| Later than 1 year but not later than 5 years | 1,666 | 417 | 134 | **2,217** |
| Later than 5 years | 4,555 | 1 | 0 | **4,556** |
| | **6,886** | **663** | **339** | **7,888** |

| **2010/11** | Property £000 | Equipment £000 | Contract Hire £000 | **Total £000** |
|---|---|---|---|---|
| Not later than 1 year | 665 | 269 | 145 | **1,079** |
| Later than 1 year but not later than 5 years | 1,666 | 439 | 215 | **2,320** |
| Later than 5 years | 4,555 | 1 | 0 | **4,556** |
| | **6,886** | **709** | **360** | **7,955** |

The expenditure charged to Cost of Services in the Comprehensive Income and Expenditure Statement was:

| 2009/10 | Property £000 | (Restated) Equipment £000 | Contract Hire £000 | **Total £000** |
|---|---|---|---|---|
| Minimum lease payments | 1,196 | 733 | 340 | **2,269** |
| Contingent rents | 0 | 0 | 0 | **0** |
| Sublease payments | 0 | 0 | 0 | **0** |
| | **1,196** | **733** | **340** | **2,269** |

| 2010/11 | Property £000 | Equipment £000 | Contract Hire £000 | **Total £000** |
|---|---|---|---|---|
| Minimum lease payments | 1,196 | 411 | 258 | **1,865** |
| Contingent rents | 0 | 0 | 0 | **0** |
| Sublease payments | 0 | 0 | 0 | **0** |
| | **1,196** | **411** | **258** | **1,865** |

### Operating leases (Council as Lessor)

The rental received for operating property leased to third parties for the year is £1,549,000, of which £845,000 relates to smallholdings. The gross value of smallholdings at 31 March 2011 is £14.02 million. Property leases are often for parts of assets for which individual valuations are not maintained and therefore an exact valuation is not provided.

The future minimum lease payments due under non-cancellable leases in future years are:

| **2009/10** | | **2010/11** |
|---|---|---|
| 963 | Not later than 1 year | 915 |
| 3,045 | Later than 1 year but not later than 5 years | 2,725 |
| 9,465 | Later than 5 years | 8,887 |
| **13,473** | | **12,527** |

The expenditure charged to Cost of Services in the Comprehensive Income and Expenditure Statement was:

| **2009/10** | | **2010/11** |
|---|---|---|
| 1,549 | Minimum lease payments | 1,549 |
| 0 | Contingent rents | 0 |
| 0 | Sublease payments | 0 |
| **1,549** | | **1,549** |

# 44 Termination Benefits

The Authority terminated the contacts of 159 employees in 2010/11, incurring liabilities of £4.2m (£4.1 in 2009/10). Of this total, £0.5m was payable in relation to the cessation of Supply Zone (see note 31 Trading Accounts) and £1.6m in relation to the Learning and Development Partnership (LDP) rationalisation.

# 45 Pensions

As part of the terms and conditions of employment of its officers and other employees, the County Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the County Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The County Council participates in two different pension schemes: the Local Government Pension Scheme and the Teachers Pension Scheme. Both schemes provide members with defined benefits related to pay and service

## 45.1 Local Government Pension Scheme

The Local Government Pension Scheme, for employees other than teachers, administered locally by Devon County Council – this is a funded defined benefit final salary scheme, meaning that the County Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

## 45.2 Transactions relating to Retirement Benefits

The County Council recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against the council tax is based on the cash payable in the year, so the real cost of retirement benefit is reversed out in the statement of Movement in Reserves.

The following transactions have been made in the income and expenditure account and statement of movement in the general fund balance during the year:

| **Local Government Pension Scheme** | **Total Liabilities** | |
|---|---|---|
| | 2009/10 | 2010/11 |
| **Income and Expenditure Account** | £000 | £000 |
| Net Cost of Services: | | |
| Current service cost | 28,367 | 48,087 |
| Past service cost | 0 | (130,753) |
| Curtailments/settlements | 1,031 | (5,128) |
| Net Operating Expenditure: | | |
| Interest cost | 80,212 | 80,782 |
| Expected return on assets in the scheme | (32,873) | (54,146) |
| Contribution to pre 1/4/98 unfunded benefits | (3,972) | 3,112 |
| **Net Charge to the Income and Expenditure Accoun** | **72,765** | **(58,046)** |
| **Movement in Reserves Statement** | | |
| reversal of net charges made for retirement benefits in accordance with IAS 19 ( Note 9) | **(72,765)** | **58,046** |

| | **Funded Liabilities** | | **Unfunded Liabilities** | |
|---|---|---|---|---|
| | 2009/10 | 2010/11 | 2009/10 | 2010/11 |
| **Actual amount charged against the General Fund Balance for pensions in the year:** | | | | |
| Employers contributions payable to scheme | 38,748 | 37,047 | 0 | 0 |
| Retirement benefits payable to pensioners (net) | 0 | 0 | 8,435 | 8,292 |
| | **38,748** | **37,047** | **8,435** | **8,292** |

The Government announced that pensions will increase in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) from 2010/11. Barnett Waddingham LLP's (an independent partnership of actuaries) approach is to account for this as a as a past service gain as they assume that the CPI will increase at a slower rate than the RPI (and so pension increases and therefore the IAS19 liabilities will be lower). The capitalised gain from the change in pension increase policy from RPI to CPI is calculated at £130.753m.

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial gains of £267.851 (£277.923m actuarial losses 2009/10) were included within other comprehensive expenditure and income within the Comprehensive Income and expenditure statement. The cumulative amount of actuarial gains and losses recognised within other comprehensive expenditure and income within the Comprehensive Income and expenditure statement is a loss of £112.992m.

## 45.3 Assets and Liabilities in relation to Retirement Benefits

Reconciliation of present value of the scheme liabilities:

| **Local Government Pension Scheme** | **Total Liabilities** | |
|---|---|---|
| | 2009/10 | 2010/11 |
| | £000 | £000 |
| 1st April | (1,201,750) | (1,716,433) |
| Current Service Cost | (28,367) | (48,087) |
| Interest Cost | (80,212) | (80,782) |
| Contributions by scheme participants | (12,611) | (12,225) |
| Curtailments and settlements | 902 | 7,672 |
| Actuarial gains/(losses) | (444,630) | 268,791 |
| Benefits paid | 50,235 | 44,809 |
| Past service costs | 0 | 130,753 |
| **Total (Liability)** | **(1,716,433)** | **(1,405,502)** |

| | **Unfunded Liabilities** | |
|---|---|---|
| | 2009/10 | 2010/11 |
| | £000 | £000 |
| Present Value of Unfunded Obligation | (132,671) | (119,463) |
| | **(132,671)** | **(119,463)** |

Reconciliation of fair value of the scheme assets:

| **Local Government Pension Scheme** | **Assets** | **Assets** |
|---|---|---|
| | 2009/10 | 2010/11 |
| | £000 | £000 |
| 1st April | 615,530 | 822,736 |
| Expected rate of return | 32,873 | 54,146 |
| Actuarial gains/(losses) | 166,707 | (940) |
| Employer contributions | 38,748 | 37,047 |
| Contributions by scheme participants | 12,611 | 12,225 |
| Settlements | (1,933) | (2,544) |
| Benefits paid | (41,800) | (36,517) |
| **Total Assets** | **822,736** | **886,153** |

The expected return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 1 April 2010 for the year to 31 March 2011). The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2011.

The actual return on scheme assets in the year was £60.578 (2009/10: £199.58m).

## 45.4 Scheme History

| | 2006/07<br>£'000<br>As Restated | 2007/08<br>£'000<br>As Restated | 2008/09<br>£'000 | 2009/10<br>£'000 | 2010/11<br>£'000 |
|---|---|---|---|---|---|
| Present value of Liabilities | | | | | |
| Funded Liabilities | (1,105,870) | (1,026,730) | (1,085,830) | (1,583,762) | (1,286,039) |
| Unfunded Liabilities | (117,370) | (112,190) | (115,920) | (132,671) | (119,463) |
| | (1,223,240) | (1,138,920) | (1,201,750) | (1,716,433) | (1,405,502) |
| Fair value of assets | 787,180 | 765,840 | 615,530 | 822,736 | 886,153 |
| scheme | (436,060) | (373,080) | (586,220) | (893,697) | (519,349) |

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £519 million has a substantial impact on the net worth of the authority as recorded in the Balance Sheet.

However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The pension fund deficit at 31 March 2011 has decreased by £374.348 from 31 March 2010. This is due to pensions now increasing in line with CPI rather than RPI, changes in mortality assumptions and improved investment returns compared to the previous year.

The regular contributions to the Fund for the accounting period to 31 March 2012 are estimated to be £32.398m.

## 45.5 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc.  Barnett Waddingham LLP assessed the value of the County Council Fund liabilities as at 31 March 2011, by rolling forward the value of the liabilities calculated for the Triennial valuation as at 31 March 2010 allowing for the different financial assumptions required under IAS19. A similar roll-forward approach was taken for the report as at 31 March 2010.

The main assumptions used for the purposes of IAS 19 are as follows:

| | Funded | | Unfunded | |
|---|---|---|---|---|
| | **2009/10** | **2010/11** | **2009/10** | **2010/11** |
| **Long-term expected rate of return on assets in the scheme:** | | | | |
| Equities | 7.5% | 7.4% | | |
| Gilts | 5.5% | 4.4% | | |
| Other Bonds | 4.5% | 5.5% | | |
| Property | 6.5% | 5.4% | | |
| Cash | 3.0% | 3.0% | | |
| Target Return Portfolio | 5.0% | 5.0% | | |
| **Mortality Assumptions:** | | | | |
| Longevity at 65 for current pensioners: | | | | |
| Men | 23.1 | 20.3 | 23.1 | 20.3 |
| Women | 25.0 | 24.4 | 25.0 | 24.4 |
| Longevity at 65 for future pensioners: | | | | |
| Men | 25.4 | 22.4 | | |
| Women | 27.3 | 26.3 | | |
| Rate of Inflation | 3.9% | 2.7% | | |
| Rate of increase in salaries | 5.4% | 5.0% | | |
| Rate of increase in pensions | 3.9% | 2.7% | | |
| Rate of discounting scheme liabilities | 5.5% | 5.5% | | |
| Take-up of option to convert annual pension into retirement lump sum | 50.0% | 50.0% | | |

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

| **Local Government Pension Scheme** | **Assets** | **Assets** |
|---|---|---|
| | 31-Mar-2010 | 31-Mar-2011 |
| | % | % |
| Equities | 69.0 | 70.0 |
| Gilts | 17.0 | 17.0 |
| Property | 6.0 | 5.0 |
| Cash | 7.0 | 7.0 |
| Target Return Portfolio | 1.0 | 1.0 |
| **Net Asset / (Liability)** | **100.0** | **100.0** |

## 45.6 History of experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2011:

| | 2006/07 # | | 2007/08 As Restated | | 2008/09 | | 2009/10 | | 2010/11 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | % | £m | % | £m | % | £m | % | £m | % |
| Difference between expected and actual return on assets | 9.41 | 1.20 | (88.50) | (11.56) | (209.13) | (33.98) | 166.71 | 20.26 | (0.94) | (0.11) |
| Experience gains (losses) on liabilities | 0.04 | 0.00 | 10.55 | 1.03 | (8.55) | (0.79) | 0.00 | 0.00 | 47.72 | 3.71 |

# The council has not restated 2006/07 as the amounts are not material.

## 45.7 Teachers Pension Scheme

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by the Department for Children, Schools and Families. It provides teachers with defined benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2010/11, the County Council paid £27,759 million (£28,152 million in 2009/10) to Capita Hartshead on behalf of the Teachers Pensions Agency, in respect of Teacher's pension costs. For 2010/11 this represented 14.1% (14.1% in 2009/10) of teachers' pensionable pay.

The Scheme is a defined benefit scheme. Although the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the Authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These benefits are fully accrued in the pension liability described in this note. No new enhanced lump sum payments or additional annual enhanced payments were made during 2010/11 and will not be made in future either.

# 46 Contingent Liabilities

## New Street Works

No provision is made for accrued interest on New Street Works Advance Payments Deposits and S38 agreements. The capital value for this was approximately £1.509 million at 31 March 2011 (£0.935 million at 31 March 2010).

## Exeter and Devon Airport Limited

Following the sale of Exeter and Devon Airport Limited possible expenditure relating to the following contingent liabilities has arisen:

- a maximum of £200,000 for construction and equipment costs should the engine testing area be relocated,
- claims under commercial warranties which total more than £500,000 for either a single claim, or a series of related claims. The time limit on these claims is the second anniversary of completion for those commercial warranties which do not relate to taxation, and the seventh anniversary for those that do,
- losses in connection with claims under the SWERDA agreement (relating to the Flybe hanger development) in excess of £1,920,000,
- legitimate claims or demands from specified contractors for any sum owing to them,

- losses that result in breaches of the covenants existing with the Church Commissioners' Properties which may have resulted from the sale to a maximum of £300,000,
- provable losses resulting from disruption or damage to the instrument landing system including any consequent disruption to the operation of business in connection with the widening of the Clyst Honiton bypass,
- losses arising from disruption resulting from the failure of the concrete used to construct the apron area for the Flybe Hanger 1 and 2 until 2016/17 to a maximum of £125,000.

## Highways – Road Traffic Incidents

There have been two serious incidents that have given rise to claims against the authority, one involving a cyclist and the other involving a car. The potential liability cannot be estimated but could be several millions of pounds. The maximum charge to the authority's accounts will be an insurance excess of £250,000 and £500,000 respectively.

## Guarantees

The Council has provided a number of guarantees. These are detailed as follows:

- A guarantee has been provided to NPS (SW) Ltd. to meet obligations in relation to rent of premises. Should the company fail to meet its obligations under the terms of the lease it will be assigned to the County Council. The premises will be available for sub-letting.
- The Council together with 14 other authorities in the South West has given a guarantee to the Avon Pension Fund in respect of employer liabilities of South West Grid for Learning Trust.
- Careers South West Ltd (formerly Connexions Devon and Cornwall Ltd) became a public sector controlled company at 1 April 2008. A guarantee in relation to pension liabilities has been provided on 31 March 2008.
- The Council has provided guarantees to the Devon Pension Fund in respect of a share of employer liabilities of the PLUSS organisation. These employer liabilities could result in the County Council making payments in relation to pension enhancements costs, redundancy costs and any actuarial deficit in the event of the insolvency of PLUSS.

# Glossary of Terms

### ACCOUNTING POLICIES
Accounting Policies determine the basis on which assets and liabilities, transactions and adjusting events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised, how it is to be measured and where in the comprehensive income and expenditure statement or Balance Sheet it is to be presented.

### ACCRUALS
Except for the Cash Flow Statement, the Statement of Accounts is prepared using the Accruals basis of accounting. This requires the non cash effects of transactions to be reflected in the accounting period during which those effects are experienced and not in that during which any cash is paid or received. On this basis, income and expenditure is reported when the related activity or benefit actually occurs.

### ACTUARY
An Actuary is an expert on pension scheme assets and liabilities. Actuaries make recommendations every three years regarding the rate of employer contributions due to the Local Government Pension Scheme.

### AMORTISATION
Amortisation represents the use of economic benefits derived from intangible assets and is charged on a straight line basis over their useful lives. These are reviewed annually. Amortisation is charged with but is distinct from Impairment.

### ASSOCIATE
An Associate is an organisation over which the County Council has significant influence, but not control. An Associate cannot be either a subsidiary or an interest in a joint venture.

### AVAILABLE FOR SALE FINANCIAL INSTRUMENTS RESERVE
The reserve carries the valuation surplus of those equity investments which, under the Code, are classified as available for sale. The surplus comprises the amount by which fair value exceeds historical cost.

### BALANCE SHEET
The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the County Council. The net assets (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories, Usable and Unusable, which are separately described in this glossary.

### BUDGET
The Budget is the statement of the County Council’s approved spending and income for a financial year and is prepared in accordance with legislation applicable to local authority finance, not in accordance with the Code. Actual income and expenditure is monitored against the Budget throughout the year, and is finally reported in the Outturn statement. Budgets are also routinely prepared for specific projects as routinely required.

## CAPITAL ADJUSTMENT ACCOUNT

The Capital Adjustment Account records the funding from internal resources of Capital Expenditure and the financing (under statute) of certain revenue expenditure. It also includes, for existing Property, Plant and Equipment, the revaluation gains accumulated prior to 1 April 2007 (the date on which a separate revaluation reserve was established). It is an unusable reserve and relevant adjustments are summarised in the Movement in Reserves Statement. Categorised as timing adjustments, these typically comprise period Depreciation, Amortisation and Impairment debits, charges for financing of certain revenue expenditure under statute or for repayment of financial assistance for capital purposes, revaluation deficit adjustments, credits for financing charges to Revenue (including MRP) and for unconditional grants applied to Capital Expenditure. Finally, there are adjustments in respect of assets reclassified (as investments or assets held for sale) or de-recognised on disposal.

## CAPITAL CHARGES

Capital Charges comprise charges for Depreciation, Amortisation, Impairment and (subject to restriction) valuation adjustments during the period. These non-monetary charges are allocated to respective service expenditure lines in the Comprehensive Income and Expenditure Account and transferred from General Fund to Unusable Reserves in the Movement in Reserves Statement in order not to impact on Council Tax. Capital Charges reduce the carrying value of Property, Plant and Equipment and Intangible Fixed Assets and correspondingly reduce Capital Adjustment Account and (again, subject to restriction) Revaluation Reserve.

## CAPITAL EXPENDITURE

Capital Expenditure represents expenditure on the construction, acquisition, development or improvement of Property, Plant and Equipment and of Intangible Fixed Assets (principally, software licenses). Under legislation it may be financed from capital sources or from funds set aside from revenue. It is to be distinguished, however, from Revenue Expenditure funded from Capital Under Statute which is charged, appropriately, as revenue expenditure in the Comprehensive Income and Expenditure Account and only matched with its capital funding by transfer in the Movement in Reserves Statement.

## CAPITAL RECEIPTS

Capital Receipts are income received from the sale of property, plant and equipment or intangible assets. They are available only to finance new Capital Expenditure or to repay debt. Until this occurs they are held on the Capital Receipts Reserve.

## CASH FLOW STATEMENT

The Cash Flow Statement summarises the inflows and outflows of cash and cash equivalents resulting from operations, and from investing and financing activities. It also shows how the net cash flow from operations is related to the Net Surplus or Deficit on Provision of Services.

## CIPFA

CIPFA (The Chartered Institute of Public Finance and Accountancy) is the lead body for setting standards in public sector accounting practice.

## COMPONENTISATION

The process by which assets are analysed into various components that have significantly different estimated lives.  Please see the Accounting polices at Note 1 for the County Council's policy on Componentisation.

## COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

The Comprehensive Income and Expenditure Account shows the cost in the year of providing services in accordance with generally accepted accounting practices (rather than the amount to be funded from taxation). It discloses the gross income and expenditure of continuing operations analysed by service, any exceptional items, other operating expenditure, financing and investment income and expenditure, and taxation and non-specific grant income. These items together comprise the surplus or deficit on the provision of services. Below this line, valuation and actuarial gains and losses are included in order to arrive at the total comprehensive income and expenditure. Those elements which are not to be included in the surplus or deficit under statutory regulations are transferred to the respective Unusable Reserves in the Movement in Reserves Statement.

## CONTINGENT LIABILITIES

Contingent Liabilities arise where, firstly, past events precipitate a present obligation which is either unlikely to result in a transfer of economic benefit or cannot be measured with sufficient reliability. Secondly, past events may give rise to a possible obligation whose existence can only be confirmed by some future occurrence not wholly under the County Council's control. A contingent liability is not provided for, therefore, either because of the improbability of outflow or the inability to measure it. Contingent Liabilities are disclosed by way of note.

## CREDITORS

Creditors are financial liabilities arising from good or services that have been received but for which payment has not been made by the Balance Sheet date.

## CURRENT ASSETS/LIABILITIES

Current Assets are either assets held with the expectation of realisation within twelve months of the Balance Sheet date or cash. Current Liabilities are liabilities due for settlement within twelve months of the Balance Sheet date.

## DEBTORS

Debtors are amounts owed to the Council at 31 March where services have been delivivered but payment has not been received.

## DEPRECIATION

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. As charged in the Comprehensive Income and Expenditure Account it represents the measure of the cost or re-valued amount consumed during the period. Depreciation is charged with but is distinct from Impairment.

## FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

The Financial Instruments Adjustment Account is an Unusable Reserve which holds cumulative timing difference arising from valuation adjustments to Financial Instruments. Transfers are made to the Account in the Movement in Reserves Statement in order to ensure that the General Fund records the amount required by the applicable regulations or statutory guidance while the Financial Instruments Adjustment Account carries the excluded surplus or deficit.

## GENERAL FUND

The General Fund is a Usable Reserve which consists of two elements. The first of these is the County Fund which carries the cumulative net Outturn surplus. It constitutes an element of the County Council's risk management strategy. The second element in the General Fund is the total reserves held by schools under delegated management

## IMPAIRMENT
Impairment is the charge made in order to reduce the carrying amount of Property, Plant and Equipment or Intangible Fixed Assets to the recoverable amount. An Impairment loss is recognised when a specific asset's remaining service potential has been detrimentally affected by, for example, obsolescence, damage, or the adverse effects of reorganisation or regulatory changes. It is distinct from revaluation losses which, being price based, are non-specific in nature. Impairment also has separate applications to Financial Instruments and Council Tax collection.

## INFRASTRUCTURE ASSETS
Infrastructure Assets are part of Property, Plant and Equipment (principally highways and footpaths) that are regarded as inalienable from the fabric of the County Council's responsibilities. As such, these assets have no resale value and are included in the Balance Sheet, subject to any Impairment, at depreciated historical cost, being the most appropriate value in use.

## INTANGIBLE FIXED ASSETS
Intangible Fixed Assets (principally, software licenses) have no physical substance but are of value in use over more than one year. These assets are not considered as marketable and are included in the Balance Sheet, subject to any Impairment, at amortised historical cost.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
These standards are issued by the International Accounting Standards Board. They are adapted under the auspices of CIPFA so as to apply to local authorities and consolidated in the Code of Practice on Local Authority Accounting (The Code). The Code applies to Statements of Account for the first time in 2010/11.

## JOINT VENTURES
A Joint Venture is a contractual or binding arrangement under which two or more parties are committed to undertake an activity that is subject to joint control. The arrangement typically sets out the nature of the activity and its duration, its governing and reporting structure, and each venturer's share of inputs and outputs. Where their interests are considered to be material, Venturers report their participation in Joint Ventures in group accounts under the equity basis of accounting. Otherwise, Joint Ventures are regarded as investments and are reported under the standards applying to Financial Instruments.

## LANDFILL ALLOWANCES TRADING SCHEME (LATS)
LATS is accounted for as a 'cap and trade' scheme whereby an initial allowance (or 'cap') on the amount of biodegradable municipal waste (BMW) which the County Council may dispose of in landfill without penalty is included as a government grant represented by current asset at fair value. Usage is then recorded as a current liability and settled by offset against the current asset or, if that is exceeded, either by penalty payment or offset against additional allowances purchased from other Waste Disposal Authorities (WDAs). If, conversely, an asset remains, this may either be carried forward or traded with other WDAs. No value is currently attached to these assets.

## LENDER OPTION BORROWER OPTION LOAN (LOBO)
Included in the County Council's borrowings are loans structured as LOBOs. These are fixed term loans with one or more options exercisable at specified dates, which allow the lender to charge a higher interest rate. If such an option is exercised, the borrower may then opt to repay the principal outstanding immediately. LOBOs are accounted for under reporting standards applying to Financial Instruments.

## MINIMUM REVENUE PROVISION (MRP)
MRP represents the minimum amount that, under Government regulations, the General Fund must be charged each year in order to fund the repayment of existing debt

## MOVEMENT IN RESERVES STATEMENT
The Movement in Reserves Statement sets out those transfers between reserves which are made in arriving at their Balance Sheet values. The Surplus or Deficit on the Provision of Services is carried to the General Fund only after transfers are made to exclude non-monetary charges and credits in order to arrive at the surplus or deficit under the funding basis required by legislation. With the exception of asset disposal sales proceeds and unapplied capital grants, these transfers are all to Unusable Reserves. Other discretionary transfers are made between General Fund and Earmarked Reserves for specific future requirements.

## NET BOOK VALUE/NET CARRYING AMOUNT
Net Book Value is the carrying amount at which assets and liabilities are included in the Balance Sheet under the Code. In the case of Financial Instruments, it is stated after including any timing adjustments and, in the case of Property, Plant and Equipment and Intangible Assets, any revaluation, Depreciation or Amortisation. In all cases it is stated after any recognised Impairment.

## OUTTURN
Outturn represents the annual financial results and capital programme which the County Council reports in order to account for its use of public funds under Government legislation. It is reported in the same terms as the Budget under which Council Tax funding was originally raised. The Outturn report is not subject to external audit and does not apply the Code, nor does it include a Balance Sheet. As such it differs signally from the Statement of Accounts.

## PRECEPTS & LEVIES
A levy is a charge made by one statutory body on another in order to meet the net cost of its services. A Precept is a charge made by a statutory body upon the council tax collection fund of a billing authority.

## PRIVATE FINANCE INITIATIVE (PFI)
PFI contracts, and also Public-Private Partnerships (PPP), typically involve a private sector operator constructing or enhancing assets used in the provision of a public service, and operating and maintaining those assets for a specified period of time on behalf of the County Council after which the assets pass to the County Council for little or no incremental consideration. In such cases, contractual charges made by the operator on the County Council fall under two headings, finance lease (to finance construction or enhancement) and service provision (to finance operation and maintenance), and each heading is accounted for accordingly over the period of each contract. In cases where no asset is to pass to the Balance Sheet, all charges are made annually to the Comprehensive Income and Expenditure Account. Under the finance lease model, the liability remains with the County Council even where assets subsequently vest in schools on a change of status.

## PRIOR PERIOD ADJUSTMENTS
Prior period adjustments are adjustments, applicable to prior years, arising from changes in Accounting Policies or from the correction of material errors. They do not include corrections of recurring items or adjustments of accounting estimates made in prior years. The adoption of IFRS (as adapted to local authorities in the Code) is considered to be of such significance that additional disclosures are specified for its implementation in 2010/11.

## PROPERTY, PLANT AND EQUIPMENT
All tangible fixed assets (i.e. assets with physical substance) are included in the Balance Sheet under the heading of Property, Plant and Equipment. They are held for use in the provision of services or for administrative purposes and are expected to be used over more than one year.

## PROVISIONS
A provision is a liability of uncertain timing or amount. It is recognised when there is a present obligation (whether legal or constructive) as a result of a past event where a transfer of economic benefit is likely to result and a reliable estimate of this transfer can be made.

## PUBLIC WORKS LOAN BOARD
The Public Works and Loans Board is a government agency which provides long term loans to local authorities.

## RELATED PARTIES
Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over it in making financial or operating decisions. Parties are also related if they are subject to common control. Related parties include subsidiaries, Associates, Joint Ventures, and possibly other entities or individuals. Central government is, of course, a related party.

Related parties attract additional disclosure requirements in order to identify the extent to which the County Council may exercise or be subject to influence or control. The Statement of Accounts includes the following in this respect:

- Details of significant Government Grants and the awarding bodies;
- Transactions with subsidiary and Associated companies;
- Transactions with the Pension Fund.
- Transactions with related individuals not applicable to other members of the community

## REVALUATION RESERVE
The Revaluation Reserve is an unusable reserve holding revaluation gains on Property, Plant and Equipment and Intangible Fixed Assets. Each revaluation is asset specific, allowing no offset, and restricted to operational assets; thus excluding investment properties and surplus assets. Accounting for changes in valuation is closely prescribed and distinct from Impairments.

## REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)
REFCUS is revenue expenditure that is funded from capital either because it is capital in nature (but not ownership) or because capital financing has been allowed by specific regulation. REFCUS is included accordingly in the Comprehensive Income and Expenditure Account and transferred to Capital Adjustment Account in the Movement in Reserves Statement.

## SECTION 151 OFFICER
The Section 151 Officer is the council officer designated under that Section of the Local Government Act 1972 to take overall control of the financial affairs of the County Council and to take personal responsibility for its financial administration.

## UNUSABLE RESERVES
Unusable Reserves are reserves that the County Council are not able to use to provide services. This category includes reserves that hold unrealised gains and losses (where amounts would only become available to provide services if the assets are sold) and those that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

## USABLE RESERVES
Usable Reserves are reserves that the County Council may use to provide services subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. Usable Reserves comprise the Capital Receipts Reserve and Capital Grants Unapplied and, under Revenue, Earmarked Reserves (sums set aside for specific future expenditure) and the General Fund.

## VALUATION
Assets and liabilities are included in the Balance Sheet at their carrying amounts: those valuations determined in accordance with The Code. These are set out in the note on Accounting Policies.

# Pension fund Statement of Accounts

## Statement of Responsibilities for the Statement of Accounts

### The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this Authority, that Officer is the County Treasurer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

### Responsibilities of the County Treasurer

The County Treasurer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the County Treasurer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice;

The County Treasurer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

### Certificate of the County Treasurer

I hereby certify that this Statement of Accounts for the year ended 31 March 2011 has been prepared in accordance with the Accounts and Audit Regulations 2003 (as amended) and that it presents a true and fair view of the financial position of the Pension Fund as at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.

***Mary Davis***

County Treasurer

29 June 2011

# Summary of Scheme and its Management

The Local Government Pension Scheme (LGPS) is one of the oldest public sector schemes in operation, having been established as a national scheme in 1922. There are about 1.7 million employees currently contributing to the LGPS in England and Wales; roughly 75% of the local government workforce. They contribute to the LGPS via any one of the 88 regional pension funds spread across England and Wales.

The LGPS is managed by administering authorities in accordance with regulations approved by Parliament. In Devon's case this is Devon County Council. Each administering authority is responsible for its own Fund, into which all contributions are paid. Rules by which the administering authorities must operate - the LGPS Regulations - are determined by the Government after consultation with representatives for both employees (trade unions) and employers (Local Government Association, Local Government Pensions Committee).

Each LGPS administering authority pays its benefits from a dedicated pension fund. Both the scheme member and their employer pay into this fund in order to provide retirement benefits for the member once they reach retirement age (or earlier if the situation demands). Before this time arrives however, the contributions paid into the scheme are invested in a variety of suitable investments; all under the watchful eye of the in-house investment management team. By investing the contributions in this way the fund can build up enough assets to cover any payments it may be expected to make regarding its scheme members retirement benefits. Please visit the website http://www.devon.gov.uk/pensions.htm for further information.

As of 31st March 2011, the net assets of the Devon County Council Pension Fund were valued at £2,607 million. The fund itself currently has 37,317 actively contributing members, employed by 114 employers of various descriptions (Unitary, District, Town & Parish Councils, Education Establishments and Admitted Bodies). Pensions are paid to 24,546 pensioners (and/or dependants) every month. There are currently 23,410 members with rights to deferred benefits.

The LGPS is contracted-out of the State Second Pension (S2P) and must, in general, provide benefits at least as good as most members would have received had they been members of the State Second Pension.

## Management Structure

| | |
|---|---|
| **Administering Authority** | Devon County Council<br>County Hall<br>Exeter<br>EX2 4QJ |

**Your Pension Fund Representatives**

**Investment and Pension Fund Committee (at 31 March 2011)**

| | | |
|---|---|---|
| Representing Devon County Council | Councillor Sara Randall Johnson | (Chairman) |
| | Councillor Barry Parsons | (V.Chairman) |
| | Councillor Paula Black | |
| | Councillor Jerry Brook | |
| | Councillor Richard Edgell | |
| | Councillor Anne Fry | |
| | Councillor Brian Greenslade | |
| | Councillor Des Hannon | |
| | Councillor Andrew Moulding | |
| | Councillor Ray Radford | |
| | Councillor Philip Sanders | |
| | Councillor Richard Westlake MBE | |
| Representing Devon Unitary & District Councils | Councillor Peter Edwards | (Devon Districts Councils) |
| | Councillor Ian Bowyer | (Plymouth) |
| | Councillor David Stark | (Plymouth) |
| | Councillor John Thomas | (Torbay) |

**Observers**

| | |
|---|---|
| Representing the Contributors | Roberto Franceschini<br>Mrs Lorraine Parker |
| Representing the Beneficiaries | Colin Lomax |
| **Adviser** | John Harrison |
| **Investment Managers** | Devon County Council Investment Team<br>Aberdeen Asset Managers Ltd<br>Lazard Asset Management LLC<br>Sarasin and Partners LLP<br>State Street Global Advisors Ltd<br>UBS Global Asset Management (UK) Ltd<br>Wellington Management International Ltd |

| | | |
|---|---|---|
| **County Council Officers** | Phil Norrey | Chief Executive |
| | Mary Davis | County Treasurer |
| | Barry White | Principal Finance Manager - Investments |
| | Charlotte Thompson | Pensions Manager |
| **Fund Actuary** | Barnett Waddingham LLP | |

Copies of the full Annual Report, Statutory Published Statements and abridged Members Leaflet can be found on-line at the Devon County Council web site at: www.devon.gov.uk/pensions/investments.htm

Requests for information about the accounts or investments should be made in writing to Barry White, Principal Finance Manager - Investments, Devon County Council, County Hall, Exeter EX2 4QJ.

# Financial Statements

## Background

Employees of the Council are members of two separate pension schemes:

- The Local Government Pension Scheme, administered by Devon County Council.
- The Teachers' Pension Scheme, administered by Capita Teachers' pensions on behalf of the Department for Children, Schools and Families (DCSF)

Both schemes provide defined benefits to members earned as employees. The arrangements for the teachers' scheme mean that liabilities for these benefits fall on the DCSF and do not form part of the Devon Pension Fund. The fund also extends to cover employees of unitary and district councils, civilian employees of the Devon and Cornwall Police Authority and Devon and Somerset Fire & Rescue Authority and employees of a number of other admitted member bodies.

The accounts of the fund are set out in line with the IFRS Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code)

The accounts reflect the assets that are available to the Fund, and the current liabilities. Future contributions are matched to future liabilities through an actuarial valuation.

All employers' contribution rates are decided by the fund's actuary every three years after an actuarial valuation of the fund. The statutory triennial actuarial valuation of the fund was undertaken in 2010 and was signed by the Actuary on 30 March 2011.

The Accounts are set out in the following order:

- **Fund Account** - which discloses the income to and expenditure from the fund relating to scheme members and to the investment and administration of the fund. The account also reconciles the fund's net assets at the start of the year to the net assets at the year end.
- **Net Asset Statement** - which discloses the type and value of all net assets at the year end.
- **Notes to the Fund Account** -provides supporting details and analysis of the figures in the Fund Account and Net Asset Statement.

# Statement of Accounts

## Fund Account

| | Notes | 2009/10 £'000 | 2010/11 £'000 |
|---|---|---|---|
| **CONTRIBUTIONS AND BENEFITS** | | | |
| Contributions receivable : | | | |
| Employers | 7 | 115,904 | 112,099 |
| Employees | | 38,470 | 38,230 |
| Transfers in from other schemes | | | |
| Group Transfers | | 0 | 0 |
| Individual Transfers | | 20,110 | 11,375 |
| | | 174,484 | 161,704 |
| Benefits payable : | | | |
| Pensions | | (91,011) | (95,623) |
| Lump Sums | | (26,716) | (25,906) |
| Death Benefits | | (2,101) | (3,407) |
| Refunds | | (16) | (11) |
| Transfers out to other schemes | | | |
| Group Transfers | | (8,724) | (15,194) |
| Individual Transfers | | (14,810) | (6,482) |
| Administration expenses | 10 | (1,325) | (1,266) |
| | | (144,703) | (147,889) |
| **Net Additions from dealings with Fund members** | | **29,781** | **13,815** |
| **RETURNS ON INVESTMENTS** | | | |
| Investment Income | | | |
| Fixed Interest | | | |
| U.K. Public Sector Bonds | | 2,941 | 1,667 |
| U.K. Public Sector Index Linked Bonds | | 891 | 408 |
| Overseas Government Bonds | | 7,003 | 7,609 |
| Overseas Government Index Linked Bonds | | 15 | 16 |
| UK Corporate Bonds | | 155 | 476 |
| Overseas Corporate Bonds | | 3,422 | 5,694 |
| Equities (Listed) | | | |
| U.K. | | 4,335 | 5,267 |
| Overseas | | 5,755 | 12,230 |
| Pooled Funds | | 5,839 | 5,567 |
| Derivatives | | 0 | 0 |
| Interest on Cash Deposits | | 370 | 1,924 |
| Irrecoverable Withholding Tax | | 1,064 | 299 |
| Underwriting Commission | | 23 | 4 |
| Investment Management expenses | 10 | (5,262) | (3,644) |
| Change in Market Value of Investments:- | | | |
| Realised profit/(loss) | | 37,547 | 46,817 |
| Unrealised profit/(loss) | | 526,852 | 105,437 |
| **Net Returns on Investments** | | **590,950** | **189,771** |
| Net Increase (Decrease) in the Fund during the year | | 620,731 | 203,586 |
| Opening Net Assets of the Fund at 1 April | | 1,782,582 | 2,403,313 |
| **Net Assets of the Fund at 31 March** | | **2,403,313** | **2,606,899** |

**Net Asset Statement**

| | Notes | 2009/10 £'000 | 2010/11 £'000 |
|---|---|---|---|
| **INVESTMENTS AT MARKET VALUE** | 12 | | |
| **Investment Assets** | | | |
| Fixed Interest | | | |
| U.K. Public Sector Bonds | | 36,009 | 46,317 |
| U.K. Public Sector Index Linked Bonds | | 32,129 | 20,980 |
| Overseas Government Bonds | | 194,986 | 208,937 |
| Overseas Government Index Linked Bonds | | 561 | 570 |
| UK Corporate Bonds | | 6,784 | 12,081 |
| Overseas Corporate Bonds | | 121,638 | 132,494 |
| Equities ( Listed ) | | | |
| U.K. | | 157,526 | 158,205 |
| Overseas | | 436,894 | 483,057 |
| Managed Funds | 14 | 1,018,947 | 1,102,085 |
| Pooled Funds | 14 | 217,867 | 243,338 |
| Derivative Assets | 15 | | |
| Futures - UK Fixed Interest | | 0 | 23 |
| Futures - Overseas Fixed Interest | | 51 | 101 |
| UK Bond Forwards | | 7 | 3 |
| Overseas Bond Forwards | | 68 | 30 |
| Forward Currency Contracts | | 2,633 | 1,868 |
| Foreign Currency | | 9,970 | 10,746 |
| Short Term Deposits | | 127,375 | 160,230 |
| Cash & Bank Deposits | | 34,946 | 32,150 |
| **Investment Liabilities** | | | |
| Derivatives | 15 | | |
| Futures - UK Fixed Interest | | (8) | 0 |
| Futures - Overseas Fixed Interest | | (100) | (141) |
| UK Bond Forwards | | (25) | (22) |
| Overseas Bond Forwards | | (108) | (20) |
| Forward Currency Contracts | | (3,235) | (3,901) |
| **Total of investments held** | | 2,394,915 | 2,609,131 |
| **Net Current Assets and Liabilities** | | | |
| Current Assets | 16 | 25,437 | 32,899 |
| Current Liabilities | 16 | (17,039) | (35,131) |
| **Net Assets of the Fund at 31 March** | | **2,403,313** | **2,606,899** |

## Notes to the Net Asset Statement

a) The financial statements above summarise the transactions and net assets of the Fund but they do not take account of liabilities to pay pensions and other benefits which fall due after the end of the Fund's accounting year.

b) The actuarial position of the scheme, which does take account of such obligations, is summarised in the Statement of the Actuary for the year ended 31 March 2011 on pages 147 and 148.

# Accounting Concepts and Policies

The Devon Pension Scheme is a defined benefit scheme which provides pensions for County, Unitary and District Council staff not in other schemes, together with staff at certain other admitted bodies.

Devon County Council is the designated Administering Authority. The Investment and Pension Fund Committee comprising of County Councillors together with representatives of the Unitary and District Councils (with observers representing the staff and retired members) control the investments with advice from specialists. Employing body details are shown on page 146.

## GENERAL CONCEPTS

### Introduction

The principles and practices of accounting require a Statement of Accounts to be prepared which give a true and fair view of the financial position and financial performance. These statements are prepared with due regard to the following:

- Quality of Information.
- Relevance – providing financial information that is useful for assessing the stewardship of public funds.
- Reliability – providing financial information that properly represents what it purports to represent, is neutral, free from material error, is complete within the bounds of materiality and which has been prudently prepared.
- Comparability – is consistent and can be compared with the previous year’s activity.
- Understandability – allowing the reader to interpret the financial position of the Pension Fund.
- Materiality - an item of information is material to the Financial Statements if its misstatement or omission might reasonably be expected to influence assessment of Devon County Council’s stewardship, economic decisions or comparison with other organisations, based on those financial statements.

### Overriding Accounting Concepts

**Accruals** – Financial Statements are prepared on an accruals basis.

**Going Concern** – The accounts are prepared on the assumption that the Pension Fund will continue in operational existence into the foreseeable future i.e. there is no intention to significantly curtail the scale of the operation.

**Legislative Requirements** – It is a fundamental principle that where specific legislative requirements and accounting principles conflict, legislative requirements take precedence.

### General Principles

The general principles in compiling these accounts are those recommended by CIPFA. The accounts of the fund have been prepared in accordance with The IFRS Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The accounting convention adopted is fair value and investments are included in the accounts on a fair value basis.

## POLICIES

### Accruals of Income and Expenditure

Activity is accounted for in the year it takes place, not simply when cash payments are made or received. In particular:

- Contributions, benefits and investment income are included on an accruals basis.
- All settlements for buying and selling of investments are accrued on the day of trading.
- Transfer values received and paid out have been accounted for on a cash basis.
- Interest on deposits is accrued if not received by the end of the financial year.
- Administration and Investment Management Expenses recharged from Devon County Council to the Pension Fund are accounted for in accordance with Devon County Council's accounting policies. In particular the full cost of employees is charged to the accounts for the period within which the employees worked. Accruals are made for salaries and wages, holiday pay, flexi leave and time off in lieu earned but unpaid at the year-end.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Net Asset Statement. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Some additional payments are made to beneficiaries on behalf of certain employers. These payments are subsequently reimbursed by those employers. The figures contained in the accounts are shown exclusive of both payments and reimbursements.

### Financial Instruments

The Financial Instruments of the Pension Fund are classified into the following categories:

**Financial assets and liabilities at fair value through profit or loss**

The Pension Fund classifies financial instruments that are 'held for trading' as at fair value through profit or loss when the financial instrument is:

a) Acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or

b) Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or

c) A derivative.

Financial assets and liabilities at fair value through profit or loss are initially recognised at fair value excluding transaction costs and carried at fair value without any deduction for transaction costs that would be incurred on sale or disposal.

**Loans and receivables**

Financial Instruments have been classified as Loans and receivables when they have fixed or determinable payments and are not quoted in an active market.

Loans and receivables are initially recognised at Fair Value and carried at historic cost as they are all short term.

**Available for sale assets**

Financial Instruments that have been classified as available-for-sale are equity investments other than those for which a reliable fair value cannot be determined and other investments traded in an active market. Available for sale assets are initially recognised at fair value and carried at fair value. The UBS International Infrastructure Fund LLP is classified as available for sale. The Devon Fund is a limited partner in the UBS International Infrastructure Fund LLP. UBS (the fund manager to the partnership) provide the pension fund with quarterly financial statements indicating the value of this investment. These statements are audited annually.

### Financial liabilities

The liabilities of the Pension Fund consist of creditors and derivative liabilities. Derivative liabilities are classified as financial liabilities at fair value through profit or loss and carried at fair value.

### Contingent Assets and Liabilities

Contingent liabilities are disclosed by way of note when there is a possible obligation which may require a payment or a transfer of economic benefits. The timing of the economic transfer and the level of uncertainty attaching to the event are such that it would be inappropriate to make a provision.

Contingent assets are disclosed by way of note where inflow of a receipt or economic benefit is possible and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Pension Fund.

### Value Added Tax (VAT)

Income and expenditure excludes any amounts relating to VAT except to the extent that it is irrecoverable.

### Post Balance Sheet Events

Post Balance sheet events have been considered up to the time the Pension Fund Accounts were authorised for issue on 29 June 2011.

Where an event after the balance sheet date occurs which provides evidence of conditions that existed at the balance sheet date the Statement of Accounts will be adjusted. Where an event occurs after the balance sheet date which is indicative of conditions that have arisen after the balance sheet date, adjustment will not be made.

No post balance sheet evens were identified.

# Notes to the Accounts

# 1. Valuation Basis

### Cost of Investments

The costs shown in the Accounts exclude direct costs of purchasing investments.

### Market Value of Investments

The market values of investments referred to in this report are provided by JP Morgan Worldwide Securities Services. JP Morgan are the custodians of the Fund. Derivatives are now required to be valued on a fair value basis. Investments are also required to be valued at their fair value and where there is an active market the bid price is usually the appropriate quoted market price. As all investments are disclosed at fair value, carrying value and fair value are the same.

### Foreign Currency Transactions

The Pension Fund has significant investments overseas. The value of these investments in the Balance Sheet is converted into sterling at the exchange rate prevailing on 31 March 2011 as supplied by JP Morgan Worldwide Securities Services. Income receipts are normally converted into sterling at or about the date of each transaction, and are accounted for using the actual exchange rate received. Purchases and sales of overseas stocks are normally converted into sterling at the exchange rate applicable on the day of trading. Exchange rate gains or losses will be reported where the rate fluctuates between the day of trading and settlement.

### Derivatives

Futures are disclosed in the accounts at fair value, which is the exchange price for closing out of the contract at the balance sheet date. This represents the unrealised profit or loss on the contract.

Forward foreign exchange contracts are disclosed in the accounts at fair value which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date.

A bond forward is an agreement to trade a bill or bond at an agreed time and place in the future. The value of a bond forward is derived from the spot market of the underlying bond adjusted for the cost of carry and accrued interest.

# 2. Transition to IFRS

The Pension Fund Accounts for 2010/11 are the first to be prepared on an IFRS basis. Adoption of the IFRS based Code has not resulted in the restatement of any balances as no material changes resulted from the adoption of the Code. A third column showing 2008/09 comparatives restated according to the IFRS-based Code of Practice has not been included in the Net Asset Statement.

## 3. Accounting Standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the

Code) has introduced a change in accounting policy in relation to the treatment of heritage assets held, which will need to be adopted fully in the 2011/12 financial statements. The change will require heritage assets to be separately disclosed and carried at Market Value rather than Historic Cost as currently required.

The fund is required to disclose information relating to the impact of this 2011/12 change in accounting policy in a disclosure note to this year's financial statements.

Heritage assets are assets that are held by the authority principally for their contribution to knowledge or culture. The Pension fund has no heritage assets.

## 4. Critical judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1 the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- These accounts have been prepared on a going concern basis. The concept of a going concern assumes that the Pension Fund will continue in operational existence for the foreseeable future.
- Note 21 Additional Financial Risk Management Disclosures details the Fund's investment strategy and approach to managing risk. None of the authority's investments are impaired.
- The Fund's significant contracts have been reviewed and no embedded finance leases or service concessions found.

# 5. Assumptions made about the future and other major sources of estimation uncertainty

The Pension Fund Accounts contain estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| Market Value of investments | The Fund's investments are revalued on a monthly basis. Although market values are available from an active market, with the exception of the UBS International Infrastructure Fund LLP (See Note 6), and market values are not estimates, it does mean that future values may fluctuate. | For every 1% increase in Market Value the value of the Fund will increase by £26.069m with a decrease having the opposite effect. |
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham, a firm of consulting Actuaries, is engaged to provide the authority with expert advice about the assumptions to be applied. | The effects on the actuarial present value of promised retirement benefits (the Funded Obligation) of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the Funded Obligation of £86.396m. However, the assumptions interact in complex ways. During 2010/11, the Fund's actuaries advised that the Funded Obligation had increased by £50.228m as a result of estimates being corrected as a result of experience and decreased by £509.040m due to updating of the assumptions. Note 17 contains further information on the funded obligation. |

# 6. Estimates

The Devon Fund is a limited partner in the UBS International Infrastructure Fund LLP. UBS (the fund manager to the partnership) provides the pension fund with quarterly financial statements indicating the value of this investment. These statements are audited annually. For all other investments market values are available from an active market and as such no assumptions have been made in their valuation.

Where actual costs were not known or could not be calculated, year end debtors and creditors are based on the last received payment or invoice.

## 7. Contributions

| Contributions received | 2009/10<br>£'000 | 2010/11<br>£'000 |
|---|---|---|
| **Contributions Analysed by** | | |
| Administering authority | 51,862 | 49,959 |
| Scheduled bodies | 97,099 | 92,372 |
| Admitted bodies | 5,413 | 7,998 |
| | **154,374** | **150,329** |
| | | |
| **Benefits Analysed by** | | |
| Administering authority | 44,521 | 47,049 |
| Scheduled bodies | 72,140 | 74,060 |
| Admitted bodies | 3,183 | 3,838 |
| | **119,844** | **124,947** |

## 8. Contribution Rates

Scheme members (employees) paid variable percentages of their total pensionable pay into the fund as set out below.

| Whole Time Pay Rate | Member contribution rate |
|---|---|
| Up to £12,600 | 5.5% |
| £12,601 to £14,700 | 5.8% |
| £14,701 to £18,900 | 5.9% |
| £18,901 to £31,500 | 6.5% |
| £31,501 to £42,000 | 6.8% |
| £42,001 to £78,700 | 7.2% |
| More than £78,700 | 7.5% |

## 9. Additional Voluntary Contributions (AVC) Investments

The Fund has two AVC providers; Equitable Life and Prudential. The value of employees' AVC investments is shown below.

| 31/03/2010 | Contributions | Investment Return | Paid Out | 31/03/2011 |
|---|---|---|---|---|
| **£000** | **£000** | **£000** | **£000** | **£000** |
| 5,172 | 479 | 403 | (838) | 5,216 |

These amounts are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009.

## 10. Administration Expenses and Related Party Transactions

In accordance with IAS 24 ‘Related Party Disclosures’ material transactions with related parties not disclosed elsewhere are detailed below:-

Under legislation, introduced in 2003/04, Councillors are entitled to join the Scheme. No Members of the Investment & Pension Fund Committee receive pension benefits from the Fund.

No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund.

The Devon Fund is a limited partner in the UBS International Infrastructure Fund LLP.

The total investment commitment made was $50million at 31 March 2011 and $34.6 m had been drawn down for investment. At 31 March 2011 the value of the Fund's investment was £21.2m.

Barry White, Principal Finance Manager (Investments) is a member of the limited partnership Investor Advisory Committee (IAC). No fee is payable in respect of this position.

Devon County Council is the administering authority for the purpose of the fund, and included within the investment management expenses are charges for investment management, accounting and administration expenses. These have been incurred for the internal cost of providing the services. The expenses are detailed below:

| | 2009/10 £000 | 2010/11 £000 |
|---|---|---|
| **Administration Expenses** | | |
| Pensions Administration (note a) | 1,241 | 1,191 |
| Actuarial Services (note c) | 26 | 55 |
| Audit Fees | 58 | 20 |
| | **1,325** | **1,266** |
| **Investment Management Expenses** | | |
| Investment Management & Accounting (note | 268 | 311 |
| External Investment Management (note b) | 3,940 | 2,652 |
| Custodian | 148 | 186 |
| Stock Lending Income & Commission Recapture | (126) | (80) |
| Transaction costs | 974 | 555 |
| Audit Fees | 58 | 20 |
| | **5,262** | **3,644** |
| | **6,587** | **4,910** |

**Notes:**

a. Included within the Investment Management expenses are charges amounting to £0.311m for Investment Management and Accounting and in Administration expenses £1.191m for Pensions Administration expenses. These have been incurred for the internal cost of providing these services.

b. Managers fees are on a fixed fee basis, calculated using the market value of the portfolio with the exception of one Manager who is partly remunerated based on performance against an agreed benchmark. The cost of external fund management varies with the value of investments under management and the extent to which performance fees are earned. No performance fees were earned during 2010/11.

c. The increase in cost of Actuarial Services reflects the costs of the 2010 Triennial Valuation.

d. Transaction costs in the year amounted to £0.555m and can be split into acquisition costs (£0.380m) and disposal costs (£0.175m). In the 2009/10 account transaction costs were included within the costs of purchases and sale proceeds. The IFRS based code however requires that transaction costs be shown in the Fund Account instead. Both Investment management expenses and change in market value on the fund account have been adjusted by £0.974m.

# 11. Stock Lending

The Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 allow the Fund to lend stock provided that the total value of the securities to be transferred does not exceed 25% of the total fund value. JP Morgan Worldwide Securities Services act as custodian for the Fund, and have been authorised to lend both UK and Overseas stocks. A summary of the stock on loan as at 31 March 2011 is shown below.

| | 31 March 2010 £'000 | % of Fund % | 31 March 2011 £'000 |
|---|---|---|---|
| **Value of Stock on Loan** | **61,476** | 2.6 | **37,772** |
| **Collateral** | | | |
| Cash | 30,925 | | 5,352 |
| Securities | 33,479 | | 34,075 |
| | **64,404** | | **39,427** |

JP Morgan are authorised to invest and reinvest all or substantially all cash collateral. The cash collateral shown in the above table reflects its fair value as at the 31st March. It is not the policy of JP Morgan or the Devon Pension Fund to sell or repledge collateral held in the form of securities. Such securities are shown in the above table at fair value as at 31st March. In the event of default by the borrower JP Morgan will liquidate the non-cash collateral and will repurchase the original lent securities. If this is not possible (due to liquidation issues), JP Morgan will arrange an acceptable solution with the Devon Pension Fund.

# 12. Investment Management Arrangements

The Pension Fund is currently managed by six external managers (eight mandates) and the in-house Investment Team in the following proportions:

| | | 31 March 2010 | | 31 March 2011 | |
|---|---|---|---|---|---|
| **Manager** | **Mandate** | **£'000** | % | **£'000** | % |
| UBS Global Asset Management (UK) Ltd | Multi Asset | 392,319 | 16.3 | 411,828 | 15.8 |
| Aberdeen Asset Managers Ltd | Global Equity | 119,900 | 5.0 | 129,983 | 5.0 |
| Sarasin and Partners LLP | Global Equity | 118,175 | 4.9 | 130,452 | 5.0 |
| Aberdeen Asset Managers Ltd | Global Emerging | 131,463 | 5.5 | 151,914 | 5.8 |
| State Street Global Advisors Ltd | Passive Equities | 452,064 | 18.8 | 491,805 | 18.8 |
| UBS Global Asset Management (UK) Ltd | Passive Equities | 421,917 | 17.6 | 458,975 | 17.6 |
| Lazard Asset Management LLC | Global Fixed Interest | 170,946 | 7.1 | 176,603 | 6.8 |
| Wellington Management International Ltd | Global Fixed Interest | 166,159 | 6.9 | 171,023 | 6.6 |
| DCC Investment Team | Specialist Funds | 430,370 | 17.9 | 484,316 | 18.6 |
| | | **2,403,313** | **100.0** | **2,606,899** | **100.0** |

# 13. Investment Movements and Transactions

| | Value at 31 March 2010 | Purchase at cost & Derivative Payments | Sale proceeds & Derivative Payments | Change in Market Value | Value at 31 March 2011 |
|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Investment Assets** | | | | | |
| **Fixed Interest** | | | | | |
| U.K. Public Sector Bonds | 36,009 | 167,118 | (157,540) | 730 | 46,317 |
| U.K. Public Sector Index Linked Bonds | 32,129 | 6,357 | (19,057) | 1,551 | 20,980 |
| Overseas Government Bonds | 194,986 | 579,435 | (561,215) | (4,269) | 208,937 |
| Overseas Government Index Linked Bonds | 561 | 16,804 | (16,804) | 9 | 570 |
| UK Corporate Bonds | 6,784 | 8,837 | (3,289) | (251) | 12,081 |
| Overseas Corporate Bonds | 121,638 | 83,875 | (70,651) | (2,368) | 132,494 |
| **Equities (Listed)** | | | | | |
| U.K. | 157,526 | 38,334 | (43,267) | 5,612 | 158,205 |
| Overseas | 436,894 | 145,223 | (131,501) | 32,441 | 483,057 |
| Managed Funds | 1,018,947 | 381,370 | (384,107) | 85,875 | 1,102,085 |
| Pooled Funds | 217,867 | 1,180 | (700) | 24,991 | 243,338 |
| Derivatives | (717) | 50,829 | (54,298) | 2,127 | (2,059) |
| Foreign Currency | 9,970 | 4,278 | (2,462) | (1,040) | 10,746 |
| Short Term Deposits | 127,375 | 32,855 | 0 | 0 | 160,230 |
| Cash & Bank Deposits | 34,946 | 0 | (2,273) | (523) | 32,150 |
| **Net Current Assest and Liabilities** | **2,394,915** | **1,516,495** | **(1,447,164)** | **144,885** | **2,609,131** |
| Current Assets | 25,437 | 0 | (1,902) | 9,364 | 32,899 |
| Current Liabilities | (17,039) | (16,097) | 0 | (1,995) | (35,131) |
| **Net Assets of the Fund at 31 March** | **2,403,313** | **1,500,398** | **(1,449,066)** | **152,254** | **2,606,899** |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Additional information about derivatives is contained in the derivatives disclosure note 15.

# 14. Analysis of Managed and Pooled Funds

## 14 (a) Managed Funds

| | UBS | SSGA | Other Managers | Total 31 March 2011 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| UK Property | | | 65,175 | 65,175 |
| UK Other | 458,974 | 112,007 | 35,939 | 606,921 |
| North America | | 203,020 | | 203,020 |
| Europe | | 148,171 | | 148,171 |
| Japan | | 28,606 | | 28,606 |
| Global | | | 50,192 | 50,192 |
| | **458,974** | **491,804** | **151,306** | **1,102,085** |
| 31 March 2010 | 421,917 | 452,064 | 144,966 | 1,018,947 |

## 14 (b) Pooled Funds (Unit Trust)

| | UBS | SSGA | Other Managers | Total 31 March 2011 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| UK Quoted Property | | | 76,398 | 76,398 |
| UK Unquoted | | | 58,029 | 58,029 |
| Overseas Unquoted | | | 108,911 | 108,911 |
| | **0** | **0** | **243,338** | **243,338** |
| 31 March 2010 | | | 217,867 | 217,867 |

# 15. Derivative Contracts

Derivative receipts and payments represent the realised gains and losses on futures contracts. The scheme's objective is to decrease the risk in the portfolio by entering into future positions to match current assets that are already held in the portfolio without disturbing the underlying assets.

**Derivative Contract Analysis**

| | Expiration Period | Notes | Position at 31 March 2010 Economic exposure £'000 | Position at 31 March 2010 Market value £'000 | Position at 31 March 2011 Economic exposure £'000 | Position at 31 March 2011 Market value £'000 |
|---|---|---|---|---|---|---|
| **INVESTMENT ASSETS** | | | | | | |
| **Futures** | | a | | | | |
| UK Fixed Interest | < 1 Year | | 0 | 0 | 0 | 23 |
| Overseas Fixed Interest | < 1 Year | | 30,236 | 51 | 12,055 | 101 |
| | | | 30,236 | 51 | 12,055 | 124 |
| **Bond Forwards** | | b | | | | |
| UK Bond Forwards | < 1 Year | | 3,050 | 7 | 4,120 | 3 |
| Overseas Bond Forwards | < 1 Year | | 18,674 | 68 | 9,262 | 30 |
| | | | 21,724 | 75 | 13,382 | 33 |
| **Forward foreign exchange contracts** | | c | 174,351 | 2,633 | 205,641 | 1,868 |
| **Total Derivative Assets** | | | **226,311** | **2,759** | **231,078** | **2,025** |
| **INVESTMENT LIABILITIES** | | | | | | |
| **Futures** | | a | | | | |
| UK Fixed Interest | < 1 Year | | 8,606 | 8 | 2,929 | 0 |
| Overseas Fixed Interest | < 1 Year | | 30,739 | 100 | 25,724 | 141 |
| | | | 39,345 | 108 | 28,653 | 141 |
| **Bond Forwards** | | b | | | | |
| UK Bond Forwards | < 1 Year | | 21,035 | 25 | 1,290 | 22 |
| Overseas Bond Forwards | < 1 Year | | 20,766 | 108 | 13,394 | 20 |
| | | | 41,801 | 133 | 14,684 | 42 |
| **Forward foreign exchange contracts** | | c | 174,351 | 3,235 | 205,641 | 3,901 |
| **Total Derivative Liabilities** | | | **255,497** | **3,476** | **248,978** | **4,084** |

The economic exposure values futures on a 'gross basis' showing the total exposure to the underlying asset class that the future affects as if the change in asset allocation in the underlying asset class has taken place.

**Notes:**

**a.** **Futures**. A futures contract is a standardized contract between two parties to buy or sell a specified asset of standardized quantity and quality at a specified future date at a price agreed today (the futures price). The contracts are traded on a futures exchange.

**b.** **Bond Forwards**. A bond forward is an agreement whereby a counterparty agrees to trade a specified amount of a bond at a specified price on a future date.

**c.** **Forward Currency Contract**. A forward contract or simply a forward is a non-standardized contract between two parties to buy or sell an asset at a specified future time at a price agreed today.

# 16. Debtors/Creditors

Debtors and Creditors include purchases and sales of investments not yet due for settlement. These large amounts due to or from the Pension Fund are paid within a few days of the year-end and have been included on a gross basis. Current assets and liabilities are valued at the fair value approximation of historic cost. Current assets and liabilities are all short term and there is no active market in which they are traded.

a) Analysis by nature of asset or liability

| | 31 March 2010 £000 | 31 March 2011 £000 |
|---|---|---|
| **Current Assets** | | |
| **Debtors and Prepayments** | | |
| Contributions Receivable | | |
| - Employers | 8,345 | 8,618 |
| - Employees | 2,977 | 2,944 |
| Interest on Cash & Bank Deposits | 425 | 457 |
| Dividends receivable | 7,941 | 8,179 |
| Settlements receivable | 4,636 | 11,163 |
| Other debtors | 1,113 | 1,538 |
| | **25,437** | **32,899** |
| **Current Liabilities** | | |
| **Creditors and Receipts in Advance** | | |
| Devon County Council | 1,406 | 1,652 |
| Settlements payable | 9,117 | 30,673 |
| Other creditors | 6,516 | 2,806 |
| | **17,039** | **35,131** |

b) Analysis by type of debtor or creditor

| | 31 March 2010 £000 | 31 March 2011 £000 |
|---|---|---|
| **Debtors** | | |
| Central Government Bodies | 1,098 | 1,509 |
| Other Local Authorities | 10,359 | 10,747 |
| NHS Bodies | 81 | 64 |
| Public Corporations and Trading Funds | 119 | 99 |
| Bodies external to general Government | 13,780 | 20,480 |
| | **25,437** | **32,899** |
| **Creditors** | | |
| Central Government Bodies | 1,070 | 1,123 |
| Other Local Authorities | 1,917 | 1,695 |
| NHS Bodies | 0 | 0 |
| Public Corporations and Trading Funds | 0 | 0 |
| Bodies external to general Government | 14,052 | 32,313 |
| | **17,039** | **35,131** |

# 17. Funded Obligation

The actuarial present value of promised retirement benefits (the Funded Obligation) amounts to £3,699m as at 31 March 2011 (£4,248m as at 31 March 2010). The Funded Obligation consists of £3,093m in respect of Vested Obligation and £0.606m, of Non-Vested Obligation. These figures have been prepared by the fund actuary (Barnett Waddingham LLP) in accordance with IAS26. In calculating the disclosed numbers the actuary has adopted methods and assumptions that are consistent with IAS19.

The figures presented are prepared only for the purposes of IAS19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

## Actuarial Methods and Assumptions

### Roll-Forward Approach

To assess the value of the Fund's liabilities as at 31 March 2011, Barnett Waddingham have rolled forward the value of the Fund's liabilities calculated for the Triennial valuation as 31 March 2010 allowing for the different financial assumptions required under IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Scheme as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2011 without completing a full valuation. However the actuary is satisfied that the approach of rolling forward the previous valuation results to 31 March 2011 should not introduce any material distortions in the results as long as the actual experience of the Employer and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information Barnett Waddingham has received there appears no evidence that this approach is inappropriate.

### Demographic/Statistical Assumptions

Barnett Waddingham has adopted a set of demographic assumptions that are consistent with those used for the formal funding valuation as at 31 March 2010. The post retirement mortality tables are 85% S1PA Heavy tables allowing for medium cohort projection, with a minimum 1% improvement for future life expectancies.

The assumed life expectations from age 65 are:

**Life Expectancy from 65 (years) as at 31 March 2011**

| | |
|---|---|
| Retiring Today | |
| Males | 20.3 |
| Females | 24.4 |
| Retiring in 20 years | |
| Males | 22.4 |
| Females | 26.3 |

The following assumptions have also been made:

Members will exchange half of their commutable pension for cash at retirement.

Active members will retire one year later than they are first able to do so without reduction.

## Financial Assumptions

The financial assumptions used for the purposes of the calculations are as follows.

| Assumptions as at | 31 March 2011 | | 31 March 2010 | | 31 March 2009 | |
|---|---|---|---|---|---|---|
| | % p.a | Real | % p.a | Real | % p.a | Real |
| RPI Increases | 3.5% | - | 3.9% | - | 3.6% | - |
| CPI Increases | 2.7% | -0.8% | n/a | | n/a | |
| Salary Increases | 5.0% | 1.5% | 5.4% | 1.5% | 5.1% | 1.5% |
| Pension Increases | 2.7% | -0.8% | 3.9% | 0.0% | 3.6% | 0.0% |
| Discount rate | 5.5% | 1.9% | 5.5% | 1.5% | 6.5% | 2.8% |

These assumptions are set with reference to market conditions at 31 March 2011. The discount rate is the yield on the iBoxx AA rated over 15 year corporate bond index as at this date which has been chosen to meet the requirements of IAS19. The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England. This measure has historically overestimated future increases in the RPI and so Barnett Waddingham has made a deduction of 0.25% to get to the RPI assumption of 3.5%. As future pension increases are expected to be based on CPI rather than RPI, Barnett Waddingham have made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.7%.

Salary increases are then assumed to be 1.5% above RPI in addition to a promotional scale, but Barnett Waddingham has also assumed that there is a pay freeze until 31 March 2012 for all members earning over £21,000 per annum.

The financial and demographic assumptions underlying the present value of the liabilities have changed from those adopted at 31 March 2010; the change in assumptions delivers a gain of £509.040m on the liabilities. The most significant changes are the change in the mortality assumptions (as detailed in our 2010 actuarial valuation report) and the change in RPI from 3.9% at 31 March 2010 to 3.5% at 31 March 2011.

# 18. Taxation

**Value Added Tax** The Fund is reimbursed by H.M.Revenue & Customs, and the accounts are shown exclusive of this tax.

**Income Tax** The Pension Fund is an exempt fund, and where permitted U.K tax on interest and dividends is recovered from H.M.Revenue & Customs. The Pension Fund cannot reclaim the 10% tax credit attached to U.K. company dividends which are included net of the tax credit.

**Withholding Tax** This is payable on income from overseas investments. This tax is recovered wherever local tax law permits.

**Other Taxation Issues** Consequent upon rulings given in the European Court of Justice, along with a number of other local authority pension funds, the Devon Fund is pursuing the recovery of tax paid on certain dividends. If successful this will be of material benefit to the Fund.

# 19. Contingent Asset

At 31 March 2005 all staff employed by the Devon & Cornwall Magistrates Courts Service who were members of the Devon (LGPS) Fund transferred to the Principal Civil Service Pension Scheme (PCSPS). No further contributions were received from that employer. All affected staff subsequently had 12 months to elect whether to leave their accrued pension entitlement with the Devon Fund (as a deferred benefit) or transfer that 'pension pot' to the PCSPS. The detailed results of these elections have still to be finalised and agreed between the Devon Fund Actuary and the Government Actuary's Department (Actuary to the PCSPS). The latest estimate from the Actuary shows that a capital sum of £3.3 m will be payable to the Devon Fund by the PCSPS. Under the transfer protocol issued by the Department for Constitutional Affairs any capital payments due to local authority pension funds would be repaid in ten annual instalments. It is anticipated that the first capital receipt should be receivable in 2012/13.

# 20. Financial Instrument Disclosures

The Net Assets of the Fund disclosed in the Net Asset Statement are made up of the following categories of financial instruments:

| | **Long-Term** | | **Current** | |
|---|---|---|---|---|
| | **31/03/2010 £000** | **31/03/2011 £000** | **31/03/2010 £000** | **31/03/2011 £000** |
| **Financial Assets** | | | | |
| Loans and receivables | 0 | 0 | 152,812 | 193,129 |
| Available-for-sale financial assets | 1,170,145 | 1,263,826 | 0 | 0 |
| Financial Assets at fair value through profit or loss | 0 | 0 | 1,055,956 | 1,146,261 |
| **Total Financial Assets** | **1,170,145** | **1,263,826** | **1,208,768** | **1,339,390** |

| | **Long-Term** | | **Current** | |
|---|---|---|---|---|
| | **31/03/2010 £000** | **31/03/2011 £000** | **31/03/2010 £000** | **31/03/2011 £000** |
| **Financial Liabilities** | | | | |
| Payables | 0 | 0 | 17,039 | 35,131 |
| Financial Liabilities at fair value through profit or loss | 0 | 0 | 3,477 | 4,083 |
| **Total Financial Liabilities** | **0** | **0** | **20,516** | **39,214** |

As all investments are disclosed at fair value, carrying value and fair value are therefore the same.

The gains and losses recognised in the Fund Account in relation to financial instruments are made up as follow:

| **2010/11** | **Financial Assets** | | | **Financial Liabilities** | | |
|---|---|---|---|---|---|---|
| | Loans and receivables | Available-for-sale financial assets | Financial Assets at fair value through profit or loss | Financial Liabilities at fair value through profit or loss | Payables | Total |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Interest expense | 0 | 0 | 0 | 0 | 0 | 0 |
| Losses on derecognition | (3,911) | (19,610) | (18,048) | (11,153) | 0 | (52,722) |
| Reductions in Fair Value | (2) | (7,044) | (68,590) | (2,920) | (142) | (78,698) |
| Impairment Losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Fee Expense | 0 | 0 | 0 | 0 | 0 | 0 |
| **Interest payable and similar charges** | **(3,913)** | **(26,654)** | **(86,638)** | **(14,073)** | **(142)** | **(131,420)** |
| Interest Income | 1,631 | 0 | 15,878 | 0 | 0 | 17,509 |
| Interest income accrued on Impaired financial assets | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividend Income | 0 | 6,423 | 16,933 | 0 | 0 | 23,356 |
| Gains on derecognition | 5,085 | 31,010 | 64,465 | 0 | 0 | 100,560 |
| Increases in Fair Value | 119 | 101,761 | 75,317 | 1,059 | 76 | 178,332 |
| Fee Income | 0 | 0 | 0 | 0 | 0 | 0 |
| **Interest and investment income** | **6,835** | **139,194** | **172,593** | **1,059** | **76** | **319,757** |
| Gains on revaluation | 0 | 0 | 0 | 0 | 0 | 0 |
| Losses on revaluation | 0 | 0 | 0 | 0 | 0 | 0 |
| **Surplus arising on revaluation of financial assets** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Net gain/(loss) for the** | **2,922** | **112,540** | **85,955** | **(13,014)** | **(66)** | **188,337** |

| **2009/10** | **Financial Assets** | | | **Financial Liabilities** | | |
|---|---|---|---|---|---|---|
| | Loans and receivables | Available-for-sale financial assets | Financial Assets at fair value through profit or loss | Financial Liabilities at fair value through profit or loss | Payables | Total |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Interest expense | 0 | 0 | 0 | 0 | 0 | 0 |
| Losses on derecognition | (4,043) | (42,422) | (16,701) | (18,448) | 0 | (81,614) |
| Reductions in Fair Value | (112) | (66,137) | (7,145) | (3,165) | (118) | (76,677) |
| Impairment Losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Fee Expense | 0 | 0 | 0 | 0 | 0 | 0 |
| **Interest payable and similar charges** | **(4,155)** | **(108,559)** | **(23,846)** | **(21,613)** | **(118)** | **(158,291)** |
| Interest Income | 1,794 | 0 | 14,283 | 0 | 0 | 16,077 |
| Interest income accrued on Impaired financial assets | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividend Income | 0 | 7,387 | 9,749 | 0 | 0 | 17,136 |
| Gains on derecognition | 5,339 | 60,891 | 53,094 | 0 | 0 | 119,324 |
| Increases in Fair Value | 2 | 410,292 | 194,171 | 0 | 7 | 604,472 |
| Fee Income | 0 | 0 | 0 | 0 | 0 | 0 |
| **Interest and investment income** | **7,135** | **478,570** | **271,297** | **0** | **7** | **757,009** |
| Gains on revaluation | 0 | 0 | 0 | 0 | 0 | 0 |
| Losses on revaluation | 0 | 0 | 0 | 0 | 0 | 0 |
| **Surplus arising on revaluation of financial assets** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Net gain/(loss) for the** | **2,980** | **370,011** | **247,451** | **(21,613)** | **(111)** | **598,718** |

# 21. Additional Financial Risk Management Disclosures

The activities of the Pension Fund are exposed to a variety of financial risks; market risk (price risk, currency risk and interest rate risk), credit risk and liquidity risk.

The Fund's investments are managed on behalf of scheme members by the Investment Managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of a written investment mandate or duly authorised prospectus.

The Investments and Pensions Committee has determined that appointment of these managers is appropriate for the Fund and is in accordance with its investment strategy.

The Investments and Pensions Committee obtains regular reports from each investment manager on the nature of the investments made and associated risks

The Fund is exposed to interest rate risk, currency risk and other price risk due to its underlying assets and liabilities. The analysis below is provided to meet the disclosure requirements of IFRS 7 Financial Instruments. Disclosures and should not be used for any other purpose. The analysis is not intended to constitute advice and is not guaranteed.

## Market Risk

Market risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Fund is exposed, particularly through its equity portfolio, to market risk influencing investment valuations. In addition to the effects of movements in interest rates, the fund is exposed to currency risk and other price risk. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of exposure to different markets through different Investment Managers. Risk of exposure to specific markets is limited by applying strategic targets to asset allocation, which are monitored by the Investments and Pensions Committee.

## Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments in the marketThe Fund is exposed to price risk which arises from investments for which the prices in the future are uncertain. All securities investments present a risk of loss of capital, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies.

## Other Price Risk - Sensitivity Analysis

Following analysis of data from WM Performance Services, it has been determined that the following movements in market price risk were reasonably possible for the 2010/11 reporting period:

| Manager | Percentage Change |
|---|---|
| UBS Global Asset Management (UK) Ltd - Multi Asset | 16.39% |
| Aberdeen Asset Managers Ltd - Global Equity | 14.35% |
| Sarasin and Partners LLP - Global Equity | 15.30% |
| Aberdeen Asset Managers Ltd - Global Emerging | 18.09% |
| State Street Global Advisors Ltd - Passive Equities | 20.36% |
| UBS Global Asset Management (UK) Ltd - Passive Equities | 19.72% |
| Lazard Asset Management LLC - Global Fixed Interest | 7.71% |
| Wellington Management International Ltd - Global Fixed In | 8.15% |
| DCC Investment Team - Specialist Funds | 7.68% |

A price change disclosed above is broadly consistent with a one-standard deviation movement in the value of the assets based on movements over the previous 3 years. This analysis assumes that all other variables, in particular foreign currency exchange rates, and interest rates remain constant.

An increase or decrease in the market price of the investments of the Fund by the percentages given at 31 March would have increased or decreased the net assets available to pay benefits by the amount shown below:

| As at 31 March 2011 | Value £'000 | Percentage Change | Increase £'000 | Decrease £'000 |
|---|---|---|---|---|
| UBS Global Asset Management (UK) Ltd - Multi Asset | 411,828 | 16.39% | 67,499 | (67,499) |
| Aberdeen Asset Managers Ltd - Global Equity | 129,983 | 14.35% | 18,653 | (18,653) |
| Sarasin and Partners LLP - Global Equity | 130,452 | 15.30% | 19,959 | (19,959) |
| Aberdeen Asset Managers Ltd - Global Emerging | 151,914 | 18.09% | 27,481 | (27,481) |
| State Street Global Advisors Ltd - Passive Equities | 491,805 | 20.36% | 100,131 | (100,131) |
| UBS Global Asset Management (UK) Ltd - Passive Equities | 458,975 | 19.72% | 90,510 | (90,510) |
| Lazard Asset Management LLC - Global Fixed Interest | 176,603 | 7.71% | 13,616 | (13,616) |
| Wellington Management International Ltd - Global Fixed In | 171,023 | 8.15% | 13,938 | (13,938) |
| DCC Investment Team - Specialist Funds | 484,316 | 7.68% | 37,195 | (37,195) |
| **Total** | **2,606,899** | | **388,982** | **(388,982)** |

| As at 31 March 2010 | Value £'000 | Percentage Change | Increase £'000 | Decrease £'000 |
|---|---|---|---|---|
| UBS Global Asset Management (UK) Ltd - Multi Asset | 392,319 | 16.39% | 64,301 | (64,301) |
| Aberdeen Asset Managers Ltd - Global Equity | 119,900 | 14.35% | 17,206 | (17,206) |
| Sarasin and Partners LLP - Global Equity | 118,175 | 15.30% | 18,081 | (18,081) |
| Aberdeen Asset Managers Ltd - Global Emerging | 131,463 | 18.09% | 23,782 | (23,782) |
| State Street Global Advisors Ltd - Passive Equities | 452,064 | 20.36% | 92,040 | (92,040) |
| UBS Global Asset Management (UK) Ltd - Passive Equities | 421,917 | 19.72% | 83,202 | (83,202) |
| Lazard Asset Management LLC - Global Fixed Interest | 170,946 | 7.71% | 13,180 | (13,180) |
| Wellington Management International Ltd - Global Fixed In | 166,159 | 8.15% | 13,542 | (13,542) |
| DCC Investment Team - Specialist Funds | 430,370 | 7.68% | 33,052 | (33,052) |
| **Total** | **2,403,313** | | **358,386** | **(358,386)** |

## Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments on behalf of scheme members. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rates are monitored during the year, both by the Fund's Investment Managers and by the Devon County Council Investments team. Short term deposits are made at fixed rates and monitored against a target rate for the year, with the aim of maximising interest within risk parameters set by the Investment and Pension Fund Committee.

The Fund's exposure to interest rate movements on those investments at 31 March 2011 and 2010 are provided below. These disclosures present interest rate risk based on underlying financial assets (at fair value).

| | As at 31 March 2010 £'000 | As at 31 March 2011 £'000 |
|---|---|---|
| Cash | 34,946 | 32,150 |
| Fixed Interest | 392,106 | 421,379 |
| Short term Deposits | 127,375 | 160,230 |
| **Total** | **554,427** | **613,759** |

## Interest Rate Risk - Sensitivity Analysis

Interest rates vary and can impact the value of the net assets available to pay benefits to scheme members. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2010.

An increase or decrease of 1% in interest rates at the reporting date would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown below:

| As at 31 March 2011 | Value | Change for the year in net assets available to pay benefits | |
|---|---|---|---|
| | | **+1%** | **-1%** |
| | **£'000** | **£'000** | **£'000** |
| Cash | 32,150 | 322 | (322) |
| Fixed Interest | 421,379 | 4,214 | (4,214) |
| Short term Deposits | 160,230 | 1,602 | (1,602) |
| **Total** | **613,759** | **6,138** | **(6,138)** |

| As at 31 March 2010 | Value | Change for the year in net assets available to pay benefits | |
|---|---|---|---|
| | | **+1%** | **-1%** |
| | **£'000** | **£'000** | **£'000** |
| Cash | 34,946 | 349 | (349) |
| Fixed Interest | 392,106 | 3,921 | (3,921) |
| Short term Deposits | 127,375 | 1,274 | (1,274) |
| **Total** | **554,427** | **5,544** | **(5,544)** |

## Currency Risk and Sensitivity Analysis

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in a currency other than the functional currency (Pound Sterling) of the Fund. The Fund holds both monetary and non-monetary assets denominated in currencies other than Pounds Sterling.

The following table summarises:

(a) The Fund's exposure at 31 March 2011 to currency exchange rate movements on its investments based on movements over the previous 3 years.

(b) A sensitivity analysis based on historical data (provided by State Street Global Advisors) of the likely volatility associated with foreign currency rate movements (as measured by one standard deviation). A strengthening or weakening of the pound against the various currencies by one standard deviation (measured in percentages) at 31 March 2011 would have increased or decreased the change for the year in net assets available to pay benefits by the amount shown. These changes in the currencies are considered to be reasonable based on historical movements in exchange rates over the past three years

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2010.

| As at 31 March 2011 | Assets held at fair value | FX Contracts | Total | Percentage Change | Change for the year in net assets available to pay benefits | |
|---|---|---|---|---|---|---|
| | | | | | + 1 Standard Deviation | - 1 Standard Deviation |
| | £'000 | £'000 | £'000 | | £'000 | £'000 |
| Australian Dollar | 26,383 | 228 | 26,611 | 16.25% | 4,324 | (4,324) |
| Brazilian Real | 15,147 | - | 15,147 | 17.79% | 2,695 | (2,695) |
| Canadian Dollar | 12,854 | 15 | 12,869 | 13.03% | 1,677 | (1,677) |
| Swiss Franc | 26,407 | 44 | 26,451 | 13.74% | 3,634 | (3,634) |
| Chilean Peso | 2,561 | - | 2,561 | 15.82% | 405 | (405) |
| Colombian Peso | 3,580 | - | 3,580 | 17.53% | 628 | (628) |
| Danish Krona | 7,771 | 7 | 7,778 | 10.89% | 847 | (847) |
| Euro | 187,813 | 191 | 188,004 | 10.89% | 20,474 | (20,474) |
| Hong Kong Dollar | 30,084 | (14) | 30,070 | 13.29% | 3,996 | (3,996) |
| Hungarian Forint | 3,374 | 6 | 3,380 | 16.55% | 559 | (559) |
| Indonesian Rupiah | 8,090 | - | 8,090 | 14.42% | 1,167 | (1,167) |
| Indian Rupee | 2,989 | - | 2,989 | 12.91% | 386 | (386) |
| Japanese Yen | 71,754 | (1,186) | 70,568 | 19.44% | 13,718 | (13,718) |
| South Korean Won | 16,762 | 3 | 16,765 | 20.46% | 3,430 | (3,430) |
| Mexican Peso | 11,580 | 19 | 11,599 | 16.37% | 1,899 | (1,899) |
| Malaysian Ringit | 5,127 | 1 | 5,128 | 12.99% | 666 | (666) |
| Norwegian Krone | 11,246 | 24 | 11,270 | 13.59% | 1,532 | (1,532) |
| New Zealand Dollars | 5,519 | 114 | 5,633 | 14.88% | 838 | (838) |
| Philipines Peso | 4,073 | - | 4,073 | 13.00% | 529 | (529) |
| Polish Zloty New | 10,298 | 25 | 10,323 | 15.98% | 1,650 | (1,650) |
| Swedish Krone | 12,087 | 13 | 12,100 | 13.98% | 1,692 | (1,692) |
| Singapore Dollars | 6,353 | 10 | 6,363 | 11.33% | 721 | (721) |
| Thailand Baht | 8,440 | - | 8,440 | 12.76% | 1,077 | (1,077) |
| New Turkish Lira | 10,062 | - | 10,062 | 15.05% | 1,514 | (1,514) |
| New Taiwan Dollar | 6,718 | 1 | 6,719 | 12.67% | 851 | (851) |
| US Dollars | 423,351 | (521) | 422,830 | 13.34% | 56,406 | (56,406) |
| South African Rand | 14,836 | - | 14,836 | 17.61% | 2,613 | (2,613) |
| | **945,259** | **(1,020)** | **944,239** | | **129,928** | **(129,928)** |

| | | | | | + 1 Standard Deviation | - 1 Standard Deviation |
|---|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | | **£'000** | **£'000** |
| Australian Dollar | 20,898 | 18 | 20,916 | 16.25% | 3,399 | (3,399) |
| Brazilian Real | 12,026 | (1) | 12,025 | 17.79% | 2,139 | (2,139) |
| Canadian Dollar | 11,060 | 27 | 11,087 | 13.03% | 1,445 | (1,445) |
| Swiss Franc | 24,577 | 32 | 24,609 | 13.74% | 3,381 | (3,381) |
| Chilean Peso | - | 92 | 92 | 15.82% | 15 | (15) |
| Colombian Peso | 1,743 | - | 1,743 | 17.53% | 306 | (306) |
| Danish Krona | 6,233 | (3) | 6,230 | 10.89% | 678 | (678) |
| Egyptian Pound | 3,430 | - | 3,430 | 13.27% | 455 | (455) |
| Euro | 191,659 | (18) | 191,641 | 10.89% | 20,870 | (20,870) |
| Hong Kong Dollar | 26,740 | - | 26,740 | 13.29% | 3,554 | (3,554) |
| Hungarian Forint | 3,693 | (4) | 3,689 | 16.55% | 611 | (611) |
| Indonesian Rupiah | 5,822 | 1 | 5,823 | 14.42% | 840 | (840) |
| Indian Rupee | 2,983 | 14 | 2,997 | 12.91% | 387 | (387) |
| Japanese Yen | 72,045 | (1,129) | 70,916 | 19.44% | 13,786 | (13,786) |
| South Korean Won | 13,745 | 2 | 13,747 | 20.46% | 2,813 | (2,813) |
| Mexican Peso | 12,303 | 5 | 12,308 | 16.37% | 2,015 | (2,015) |
| Malaysian Ringit | 4,449 | 53 | 4,502 | 12.99% | 585 | (585) |
| Norwegian Krone | 6,651 | (8) | 6,643 | 13.59% | 903 | (903) |
| New Zealand Dollars | 5,370 | 53 | 5,423 | 14.88% | 807 | (807) |
| Philipines Peso | 3,238 | 70 | 3,308 | 13.00% | 430 | (430) |
| Polish Zloty New | 10,220 | (4) | 10,216 | 15.98% | 1,633 | (1,633) |
| Romanian Leu | 1,687 | (26) | 1,661 | 13.64% | 227 | (227) |
| Swedish Krone | 9,547 | (6) | 9,541 | 13.98% | 1,334 | (1,334) |
| Singapore Dollars | 7,190 | (27) | 7,163 | 11.33% | 812 | (812) |
| Thailand Baht | 5,742 | - | 5,742 | 12.76% | 733 | (733) |
| New Turkish Lira | 7,392 | 5 | 7,397 | 15.05% | 1,113 | (1,113) |
| New Taiwan Dollar | 5,440 | 4 | 5,444 | 12.67% | 690 | (690) |
| US Dollars | 396,431 | (116) | 396,315 | 13.34% | 52,868 | (52,868) |
| South African Rand | 9,283 | 2 | 9,285 | 17.61% | 1,635 | (1,635) |
| | **881,597** | **(964)** | **880,633** | | **120,464** | **(120,464)** |

## Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Pension Fund to incur a financial loss. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of the financial assets and liabilities as they are marked to market.

The net market value of financial assets represents the Fund's exposure to credit risk in relation to those assets. For derivative positions the credit risk is equal to the net market value of positive (asset) derivative positions.

The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur though the failure to settle transactions in a timely manner. The Fund's exposure to concentrations of credit risk to individual counterparties comprises of assets that are invested by individual investment managers and in specific investment trusts. The contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default.

Credit risk on exchange traded derivative contracts is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Interest rate agreements and foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which are principally large banks. The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the Fund pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the Fund.

The Fund's exposure to credit risk at 31 March 2011 is the carrying amount of the financial assets.

| | **As at 31 March 2010 £'000** | **As at 31 March 2011 £'000** |
|---|---|---|
| Fixed Interest | 392,106 | 421,379 |
| UK Equities - Quoted | 157,526 | 158,205 |
| Overseas Equities - Quoted | 436,894 | 483,057 |
| Pooled Investment Vehicles (Managed and Pooled Funds) | 1,236,814 | 1,345,423 |
| Derivatives (net) | (717) | (2,059) |
| Cash and Cash Equivalents | 34,946 | 32,150 |
| Settlements and dividends receivable | 12,577 | 19,341 |
| **Total of investments held** | **2,270,146** | **2,457,496** |

## Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. In assessing each individual investment, a key consideration is to ensure that the liability of the Fund is limited to the amount of the investment in the asset.

The liquidity risks associated with the need to pay members' benefits are mitigated by maintaining a constant pool of cash.

All the Fund’s financial liabilities fall due within 12 months.

## Fair Value Hierarchy

IFRS 7 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability (level 2)
- inputs for the asset or liability that are not based on observable market data (that is, unobservable) (level 3)

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement. Observable data is considered to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2011.

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total |
|---|---|---|---|---|
| Fixed Interest | | | | - |
| U.K. Public Sector Bonds | 46,317 | - | - | 46,317 |
| U.K. Public Sector Index Linked Bonds | 20,980 | - | - | 20,980 |
| Overseas Government Bonds | 208,937 | - | - | 208,937 |
| Overseas Government Index Linked Bonds | 570 | - | - | 570 |
| UK Corporate Bonds | 12,081 | - | - | 12,081 |
| Overseas Corporate Bonds | 132,494 | - | - | 132,494 |
| Equities ( Listed ) | | | | |
| U.K. | 158,205 | - | - | 158,205 |
| Overseas | 483,057 | - | - | 483,057 |
| Managed Funds | - | 1,102,085 | - | 1,102,085 |
| Pooled Funds | 209,328 | 12,791 | 21,219 | 243,338 |
| Derivative Assets | | | | |
| Futures - UK Fixed Interest | - | 23 | - | 23 |
| Futures - Overseas Fixed Interest | - | 101 | - | 101 |
| UK Bond Forwards | - | 3 | - | 3 |
| Overseas Bond Forwards | - | 30 | - | 30 |
| Forward Currency Contracts | - | 1,868 | - | 1,868 |
| Foreign Currency | - | 10,746 | - | 10,746 |
| Short Term Deposits | - | 160,230 | - | 160,230 |
| Cash & Bank Deposits | 32,150 | - | - | 32,150 |
| Investment Liabilities | | | | - |
| Derivatives | | | | |
| Futures - UK Fixed Interest | - | - | - | - |
| Futures - Overseas Fixed Interest | - | (141) | - | (141) |
| UK Bond Forwards | - | (22) | - | (22) |
| Overseas Bond Forwards | - | (20) | - | (20) |
| Forward Currency Contracts | - | (3,901) | - | (3,901) |
| Current Assets | 32,899 | - | - | 32,899 |
| Current Liabilities | (35,131) | - | - | (35,131) |
| **Net Assets of the Fund at 31 March 2011** | **1,301,887** | **1,283,793** | **21,219** | **2,606,899** |

Investments whose values are based on quoted market prices in active markets, are therefore classified within level 1.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. As level 2 investments include positions that are not traded in active markets and / or are subject to transfer restrictions, valuation may be adjusted to reflect illiquidity and / or non - transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. As observable prices are not available for these securities, the responsible entity has used valuation techniques to derive fair value.

During the year ended 31 March 2011 there were no transfers between levels 1, 2 or 3 of the fair value hierarchy.

# Statistical Summary

Financial Summary

| | 2006/07 £'000 | 2007/08 £'000 | 2008/09 £'000 | 2009/10 £'000 | 2010/11 £'000 |
|---|---|---|---|---|---|
| **Contributions and Benefits** | | | | | |
| Contributions received | 131,310 | 136,009 | 143,845 | 154,021 | 149,450 |
| Employers Additional Capital | 540 | 928 | 410 | 353 | 879 |
| Transfers from Other Schemes | 18,339 | 20,037 | 12,523 | 20,110 | 11,375 |
| | 150,189 | 156,974 | 156,778 | 174,484 | 161,704 |
| Benefits Paid | (95,502) | (99,802) | (107,117) | (119,844) | (124,947) |
| Transfers to Other Schemes | (7,059) | (7,061) | (6,847) | (23,534) | (21,676) |
| Administration Expenses | (1,201) | (1,346) | (1,342) | (1,325) | (1,266) |
| | (103,762) | (108,209) | (115,306) | (144,703) | (147,889) |
| **Net Additions (Withdrawals) from Dealings with Fund members** | **46,427** | **48,765** | **41,472** | **29,781** | **13,815** |
| **Returns on Investments** | | | | | |
| Investment Income | 34,821 | 39,921 | 39,176 | 31,813 | 41,161 |
| Investment Management Expenses | (1,509) | (1,530) | (781) | (5,262) | (3,644) |
| Increase / (decrease) in Market Value of Investments during the Year | 121,714 | (118,790) | (453,072) | 564,399 | 152,254 |
| **Net Returns on Investments** | **155,026** | **(80,399)** | **(414,677)** | **590,950** | **189,771** |
| **Net Assets of the Fund at 31 March** | **2,187,421** | **2,155,787** | **1,782,582** | **2,403,313** | **2,606,899** |

**Membership Summary**

| | 2006/07 £'000 | 2007/08 £'000 | 2008/09 £'000 | 2009/10 £'000 | 2010/11 £'000 |
|---|---|---|---|---|---|
| Contributors | 36,563 | 36,346 | 38,304 | 38,665 | 37,317 |
| Pensioners and Dependents | 20,274 | 21,206 | 22,171 | 23,392 | 24,546 |
| Deferred Pensioners | 16,946 | 19,293 | 20,242 | 21,997 | 23,410 |

# Employing Bodies

There are currently 114 employers who have active members in the Fund.

**Administering Authority**

Devon County Council

**Scheduled Bodies**

All Saints Academy
Ashburton Town Council
Barnstaple Town Council
Bicton College
Bideford Town Council
Bovey Tracey Town Council
Bradworthy Academy
Braunton Parish Council
Brixham Town Council
Broadclyst Academy
Buckland Monachorum Parish Council
Chudleigh Town Council
Churston Academy
City College Plymouth
Colyton Academy
Combe Martin Parish Council
Coombeshead College
Crediton Town Council
Cullompton Town Council
Dartmoor National Park Authority
Dartmouth Academy
Dartmouth Town Council
Dawlish Town Council
Devon & Cornwall Police
Devon & Cornwall Probation Trust
Devon & Somerset Fire and Rescue Service
Devon Sea Fisheries Committee
Devonport High School
East Devon District Council
Elburton Primary School
Exeter City Council
Exeter College
Exmouth Town Council
Great Torrington School
Ilfracombe Town Council
Ivybridge Academy
Ivybridge Town Council
Kingsbridge Academy
Kingsbridge Town Council
Kingsteignton Town Council
Lipson Community College
Lynton & Lynmouth Town Council
Marine Academy Plymouth
Mid Devon District Council
Mount Street Primary School
Newton Abbot College
Newton Abbot Town Council
North Devon District Council
Okehampton Town Council
Oreston Academy
PETROC
Plymouth City Council
Plymouth Citybus
Plymouth College of Art
Plymstock School
Sidmouth Town Council
South Brent Parish Council
South Dartmoor Community
South Devon College
South Hams District Council
South Molton Town Council
South West Fire Control Centre
St.Boniface R.C. Boys College
Stoke Damerel Community
Tavistock Town Council
Teign School
Teignbridge District Council
Teignmouth Learning Trust
Torbay Council
Torquay Boys Academy
Torquay Girls Academy
Torridge District Council
Totnes Town Council
Uffculme Academy
Ugborough Parish Council
University of Plymouth
West Devon Borough Council
Widewell Primary School
Woodbury Parish Council

**Admitted Bodies**

Access Plymouth
Amey Services
Call 24 Hour
Carillion JM Ltd
Dame Hannah Rogers School
English Riviera Tourism Company
Exeter Royal Academy for Deaf Education
Initial Catering Services
Innovate
Interserve Project Services Ltd
Keyham Community Partnership
Leisure East Devon
Making Space
Millfield Community Economic Development Trust
North Devon Homes
North Devon Joint Crematorium
Open College Network South West Region
Pluss
Plymouth Citizen's Advice Bureau
Plymouth Community Homes
Riviera Housing Trust
South West Tourism
Tarka Housing
Teign Housing
Tone Leisure
Tor 2 Ltd Asset Management
Tor 2 Ltd Streetscene
Tor 2 Ltd Waste & Recycling
Tor Homes
Torbay Coast & Countryside Trust
Torquay Museum Trust
Valuation Tribunal Service
West Devon Homes
Wolseley Community Economic Development Trust

# Statement of the Actuary for the year ended 31 March 2011

## Introduction

The last full triennial valuation of the Devon County Council Pension fund was carried as at 31 March 2010 in accordance with the Funding Strategy Statement of the fund. The results were published in the 31 March 2010 triennial valuation report dated March 2011.

## 2010 Valuation Results

The results of the fund were as follows

The Devon County Council Pension fund had a funding level of 81%, i.e.

- The assets amounted to 81% of the liability promises made as at that valuation date. This corresponded to a deficit of £530m at that time.
- The overall contribution rate was set at 18.3% of payroll assuming the funding level was to be restored over a 30 year period.
- The common contribution rate was set at 14.3% of payroll and individual employers paid additional contributions reflecting their own experience in the fund.
- The funding level of the fund is broadly similar to the position at the 2007 triennial valuation

## Valuation method

The contribution rates were calculated using the Projected Unit Method or the Attained Age Method. Employers remaining open to new entrants being valued on the Projected Unit Method, whereas the employers who did not allow new entrants to join were valued using the Attained Age method.

## Contribution Rates

The contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet

- The additional annual accrual of benefits allowing for future pay increases and increases to pension in payment when these fall due
- plus an amount to reflect each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund in respect of service to the valuation date.

## Key Financial Assumptions

The liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date as follows;

| | |
|---|---|
| Rate of return on investments | 6.8% per annum |
| Rate of increases in pay | 5.0% per annum |
| Rate of Increases to pensions in payment | 3.0% per annum |

## Asset valuation

Assets were valued at their market values at the date of valuation.

## Post Valuation Events – Changes in market conditions

Since March 2010 investment returns have been slightly higher than assumed at the 2010 valuation although liabilities will have increased due to a reduction in the real discount rate underlying the valuation funding model. Overall we expect the financial position of the fund will be similar to that of the 2010 valuation.

The next actuarial valuation is due as at 31 March 2013 and the resulting contribution rates required by the employers will take effect from 1 April 2014.  We will continue to monitor the financial position of the Fund.

**Alison Hamilton FFA**

Partner

12 May 2011

# Glossary

## Actuarial Terms

### 85% S1PA Heavy tables
The S1PA Heavy series are published by the CMI (Continuous Mortality Investigation) – these are the most up to date mortality tables available and are officially adopted by the Actuarial Profession.

### Actuary
An independent consultant who advises on the financial position of the fund. Every three years the actuary reviews the assets and liabilities of the fund and reports to the County Council on the financial position and the recommended employers' contribution rates. This is known as the Actuarial Valuation.

### iBoxx AA
The discount rate used is the yield on the iBoxx AA rated over 15 year corporate bond index which has been chosen to meet the prescriptive requirements of IAS19.

### Medium cohort projection
The medium cohort projection is related to the observed phenomenon that people born in the U.K. between 1925 and 1945 (centred on the generation born in 1931) have experienced more rapid improvement in mortality than generations born either side of this period. The mortality assumptions adopted incorporate the improved experience of this cohort relative to people outside this group.

### Non-Vested obligations
If active members remain active rather than become deferred then their liabilities will be higher due to assumed salary increases until retirement. These additional liabilities make up the non-vested obligation.

### Promotional scale
This takes into consideration the possibility of promotion during the course of an employees working life.

### Retirement age assumption
Active members will retire one year later than they are first able to do so without reduction – One year after minimum retirement age

### Solvency Test
An actuarial calculation to determine whether the assets of an occupational pension scheme are sufficient to meet its benefit obligations.

### Vested obligations
Vested obligations are liabilities in respect of deferred and pensioner members. It also includes part of the liability for active members. This part is calculated by assuming active members become deferred immediately and as such does not take into account future salary increases.

## Deferred Pension

The pension benefit payable from normal retirement age to a member of the fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before state retirement age.

## Emerging Markets

Stock Markets in developing countries (as defined by the World Bank).

## Equities

Ordinary shares in UK and overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are normally entitled to vote at shareholders' meetings.

## Derivatives

Financial contracts whose value is tied to an underlying asset. Derivatives include futures, options and swaps.

## Fixed Interest Securities

Investments in mainly government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a stated future date but which can be traded on a recognised Stock Exchange in the meantime.

## Index Future

An obligation to make or take delivery of a specified quantity of an underlying Stock/Index at a particular time in the future, at a price agreed when the contract is taken out.

## Index (Stock Market)

The movements in a Stock Market are monitored continuously by means of an Index made up of the current prices of a representative sample of stocks.

## Indexation

Also known as Index Matching or Index Tracking. Indexation is a statistical technique used to construct a portfolio of shares that will consistently move in line with a particular Index.

## Managed Fund

A multi-asset pooled fund under which an insurance company offers participation in one or more pooled funds.

## Market Value

The price at which an investment can be sold at a given date.

## Performance Services

WM Performance services are an independent company used to measure the investment performance of the Fund. They also measure 84 Local Authority sector funds calculating every quarter the average returns for the median of all the funds and an constituent funds (the weighted average).

## Pooled Funds

A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region.

## Portfolio

A collective term for all the investments held in a fund, market or sector.

## Property Unit Trust

A pooled investment vehicle that enables investors to hold a stake in a diversified portfolio of properties.

## Return

The total gain from holding an investment over a given period, including income and increase (decrease) in market value.

## Transfers to/from Other Schemes

These are sums paid to, or received from other pension schemes and relate to the current value of past contributions which transfer with a member when changing employment.

## Unrealised Increase / (Decrease) in Market Value

The increase/ (decrease) in market value, since the previous year, of those investments still held at the year end.

## Unit Trust

A Pooled Fund in which investors hold units, and where the fund offers new units and is prepared to redeem existing units from holders on a regular basis.